[Office of the United States Trade Representative]

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

A Report Submitted by the President of the United States to the Congress

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A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

Executive Summary

The primary goal of the Administration's trade and development policy for the countries of Africa is to support sustainable economic development in the region and to quicken the pace of that development, which would boost U.S. trade and investment in Africa. In response to the economic and democratic reforms implemented by many Sub-Saharan African nations in recent years, the Administration seeks to accelerate the pace of development by: 1) increasing trade flows between the United States and Sub-Saharan Africa; 2) promoting economic reform as well as the development of the private sector and infrastructure; 3) improving the investment climate; and 4) strengthening efforts toward democratic governance.

The United States strongly supports economic and institutional reform efforts currently underway in Africa. Economic growth across the continent is manifestly in the U.S. national interest. Increased economic development in Sub-Saharan Africa will benefit both Africans and Americans and will contribute to the national and economic security of the United States. Stronger economies in Sub-Saharan nations will contribute to social and political stability in Africa and create more export opportunities for U.S. goods and services and more jobs at home. They will also reduce costs to the U.S. of emergency humanitarian assistance as countries become better equipped to manage their own emergencies.

The Administration will continue to use a variety of tools to achieve its objectives including: bilateral technical and development assistance; increased government-to-government dialogue; multilateral development bank and IMF assistance; bilateral and multilateral debt reduction programs, World Trade Organization disciplines and participation; bilateral trade and investment agreements; and export promotion and trade facilitation programs.

A number of Sub-Saharan African countries have made significant progress in economic and democratization reforms in recent years. Over 30 countries, with assistance from the World Bank and the International Monetary Fund, have instituted economic reform programs that entail liberalizing exchange rates and prices, privatizing state-owned enterprises, instituting tighter disciplines over government expenditures, ending costly subsidies, and reducing barriers to trade and investment. Since 1990, more than 25 Sub-Saharan countries have held elections generally recognized as free and fair. Stable democracies create a climate in which business can thrive while economic development increases the chances that democratization will succeed. The willingness of a number of African countries to enter into regional economic integration agreements will also contribute to stronger economies.

In spite of Africa's improving economic performance, further structural reforms are necessary if the continent is not only to achieve sustainable growth, but also to reduce poverty. Necessary economic reforms include strengthening public finances by improving revenue collection and reducing expenses, especially with regard to state-owned enterprises; liberalizing prices; freeing the markets for foreign exchange and credit; and reducing trade barriers. Reforms in the trade area have particular importance for overall growth: recent research suggests that roughly 40 percent of Africa's slow growth in the 1970-1989 period was due to the fact that African markets have significant barriers to trade. A major goal of the Administration's trade and development policies toward Sub-Saharan Africa, therefore, must be to support African efforts to reduce tariffs and trade-related barriers so that the region may realize the full benefits of expanded trade and gain a resulting boost in growth.

Other reforms are also needed to improve Africa's "market infrastructure," e.g., modernizing commercial laws that govern domestic business and investment, strengthening financial institutions that provide the backing for entrepreneurs' ideas, and renovating the physical infrastructure that expedites domestic and international trade. Liberalization of investment is also critical for improving economic conditions in Africa. Foreign direct investment can transfer valuable technology to Africa, improve competition and galvanize domestic investment, while also benefiting foreign investors.

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This is the second annual report submitted pursuant to the Uruguay Round Agreements Act (the "Second Africa Trade Report") setting forth the Administration's comprehensive trade and development policy for Sub-Saharan Africa. The Second Africa Trade Report summarizes the status of ongoing programs discussed in the first comprehensive trade and development report submitted by the Administration (the "First Africa Trade Report") and introduces new initiatives designed to spur investment, development and trade over the near to medium term. Working with the U.S. private sector and the Congress, the Administration intends to build upon these initiatives and the strategy outlined in the Second Africa Trade Report to develop with Congress in 1997 additional initiatives to promote trade and investment with Africa and sustain economic growth in the region.

In preparing the First Africa Trade Report, the Administration sought to identify the many U.S. programs related to Sub-Saharan Africa and set forth a policy framework structured around five basic objectives: trade liberalization and promotion, investment liberalization and promotion, development of the private sector, infrastructure enhancement, and economic reform. These five objectives remain the framework for the Administration's trade and development policy for Sub- Saharan Africa and the issues and initiatives discussed in the current report are organized around them. Highlights of the Second Africa Trade Report, including a brief discussion of the issues and progress on the initiatives discussed in the First Africa Trade Report, are set forth below.

The new initiatives that are discussed at the end of chapters II - VI are summarized in appendix A.

I. **Economic Reform**

- Economic growth in Africa requires continuing macroeconomic stabilization and structural reform. The success of recent reforms is apparent in the region's accelerating GDP growth, which reached an average of 4 percent in 1995 compared to 1.4 percent in 1991- 94. This average, however, conceals wide variations in country performance, with four countries growing by over 10 percent and others contracting or growing by less than the population growth rate. Nevertheless, contrast with the 1980s and early 1990s, the poor performers now seem more the exception than the rule.
- Continuing public sector deficits and low private savings rates will keep total savings and investment at levels too low to sustain adequate growth in most Sub-Saharan countries. The World Bank estimates that gross domestic savings were only 6 percent of GDP in 1994-96, twice as high as in the prior three years but well below the median investment-to-GDP ratio of 15-16 percent. Even the latter modest level of investment can be sustained only by grants and concessional loans from official donors and debt relief, since Africa's share of global private investment is small. Donors will be increasingly selective in the countries and projects they support, while African nations should continue to do

more to attract foreign investment.

- In September 1996, 23 Sub-Saharan countries had reform programs in effect with the IMF, while 31 participated in the World Bank-led Special Program of Assistance (SPA) for Africa. Reforms typically include realignment of exchange rates, fiscal consolidation, trade liberalization, privatization, financial sector reform, and in a few cases, regional economic integration. There also have been improvements in transparency and accountability. While fiscal performance is better, management of public finance generally remains weak and excessive reliance on trade tariffs for revenue hampers efforts to liberalize trade.
- The region's enormous parastatal enterprise (PE) sector still drains public resources and constrains private investment. The PEs' poor management, weak finances, and technological limitations mean that their net developmental effect usually is negative. While privatization has gained speed, it must be further accelerated and participation widened if the rate and quality of investment and growth are to improve. Privatization of utilities offers especially good opportunities to upgrade essential services while avoiding new debt.

II. **Trade Liberalization and Promotion**

- More active participation in regional and global trade organizations will help Sub-Saharan African countries take advantage of the benefits of trade liberalization. Protectionist trade policies in Africa were analyzed in a recent World Bank study that concluded protectionism has been costing the region as much as $11 billion per year -- equivalent to the total amount of external aid to the region in 1991.
- The United States has a growing strategic and commercial stake in expansion of Sub-Saharan African trade flows as the region already exports products worth $12 billion to the United States and is a growing market for U.S. goods. U.S. merchandise exports to the region jumped nearly 23 percent in 1995, to $5.4 billion.
- More than 30 Sub-Saharan countries have become members of the WTO and an increasing number of Sub-Saharan nations have taken steps toward regional integration. However, few Sub-Saharan nations were active participants in the Uruguay Round negotiations. In fact, there was virtually no lowering of the region's average tariffs in this, the world's most ambitious trade liberalizing agreement, despite initiatives undertaken by the WTO to make participation less burdensome for developing countries.
- The United States has encouraged the WTO to re-focus its technical assistance programs for promoting the understanding and implementation of WTO obligations to give special attention to the needs of the least-developed developing countries and to explore avenues for diversification of African exports.
- The Administration has been successful in obtaining legislation renewing the Generalized System of Preferences (GSP) that provides duty-free entry for half of the 9,000 products listed in the U.S. Tariff Schedule and contains special benefits for least developed beneficiary countries (LDBC). Another special benefit for the LDBCs is the possible addition of up to 1,895 tariff line items to the list of articles with preferential duty-free access. Most Sub-Saharan countries of Africa could benefit from this expansion of GSP benefits, particularly if Congress renews the program on a multi-year basis after it expires May 31, 1997.
- The historic Commercial Development Mission to Africa led by the late Secretary of Commerce Ron Brown in February 1996 visited five countries: Cote d'Ivoire, Ghana,

Kenya, Uganda, and Botswana. Secretary Brown held discussions with government leaders and private representatives from nearly 40 African countries and more than 150 U.S. firms, resulting in contracts and agreements for American companies totaling nearly $500 million, with potential for future sales that eventually could total more than $3 billion in U.S. exports.

III. **Investment Liberalization**

- If obstacles that hinder investment are removed, benefits will accrue to both U.S. investors and the African nations. U.S. investments in Africa will increase if U.S. investors are assured of being treated as fairly and favorably as domestic and other foreign competitors and if they are confident the host country has a stable legal system.
- Most Sub-Saharan African countries actively seek foreign investment and many have liberalized their investment policies in order to attract foreign investors. Nonetheless, many Sub-Saharan countries still maintain restrictive investment policies, inefficient public enterprises, and/or legal systems that effectively discourage private investment, both domestic and foreign.
- The Administration is actively promoting U.S. investment in Africa. OPIC authorized a $120 million private investment fund, the New Africa Opportunities Fund, that will invest in projects in the countries of Southern Africa. In addition, during the last year, Eximbank approved over $23 million in transactions for the gold mining sector in Ghana and an additional $316 million for the hydrocarbon sector in Ghana. Eximbank also financed a major petroleum project in Angola. Also, TDA has funded 24 technical support activities and reverse trade missions as well as a major Africa transportation conference to support infrastructure development in 30 countries in Sub-Saharan Africa.

IV. **Private Sector Development**

- Development of Africa's private sector is critical due to its central role in the development of national economies. U.S. assistance to the private sector includes: (1) developing the human resource base for both the work force and managers; (2) expanding access to capital, both working and investment capital; and (3) building institutions to support the private sector.
- USAID is expanding its financial markets programs in certain African countries. Micro-enterprise lending is a particularly strong component of USAID's financial sector activities, and funding has been provided to such programs in Kenya, South Africa, Guinea, Mali, Zimbabwe, Senegal and Uganda. Its $100 million Southern Africa Enterprise Development Fund and smaller national funds in South Africa and Zimbabwe target that region.
- Under the auspices of the Agriculture Committee of the U.S.-South Africa Binational Commission, over 20 bilateral agricultural projects are underway in the areas of market access, technology development, institutional and human resources development, and sustainability issues, including soil conservation and rural development.

V. **Infrastructure Enhancement**

- Improving infrastructure is critical to expanding intra-regional and international trade. There is a pressing need for development of transportation, water and energy resources, and telecommunications in Sub-Saharan Africa. At the same time, to ensure that such development is sustainable, the creation or further development of an adequate environmental infrastructure is required.

- Governments in Sub-Saharan Africa continue to dominate the provision of infrastructure in telecommunications, power, transport, and other sectors. All too often the result of this dominance has been under-investment, poor maintenance of finished projects, and lack of responsiveness to business and household end-users. For instance, the continent's average telephone density of about 0.4 lines per 100 inhabitants is the lowest in the world.
- One of the most promising short- and medium-term sectors for private investment in Africa is telecommunications. Technological changes such as satellite and microwave systems erode the old network-based monopoly in telecommunications and make competition possible. Similarly, in power generation and distribution, technological advances and improvements in regulatory frameworks are making power-generation more attractive to domestic and foreign private investors.
- Some efforts to coordinate regional infrastructure investments are already occurring in Sub-Saharan Africa. For example, the Commission of East African Cooperation, founded by Kenya, Tanzania, and Uganda in March 1996, has an ambitious plan to coordinate electrical power projects.
- In May, the Administration promoted the principles of the Global Information Infrastructure (GII) at a major conference in South Africa, and formally announced the five-year "Leland Initiative" to improve access of 20 African countries to the Internet.
- Eximbank issued $1.3 billion in letters of interest in Africa last year and has used escrow accounts to limit risk for infrastructure projects in less credit-worthy markets. The Department of Energy is providing policy and technical advice that facilitates private investment in water and power generation.

Working Together in the Administration

In the First Africa Trade Report, the Administration detailed the wide array of activities that federal agencies were undertaking to promote trade and development in Sub-Saharan Africa. This Second Africa Trade Report provides new information on the progress made during the last year in implementing these programs and on new initiatives that agencies are undertaking to achieve this goal. In addition, the first and second annual reports prepared by the U.S. International Trade Commission, both entitled *U.S.-Africa Trade Flows and Effects of the Uruguay Round Agreement and U.S. Trade and Development Policy*, contain valuable information on U.S.-African trade and investment flows, and detailed information on the trade and development activities in Africa of the federal agencies.

Working Together with Congress on Legislation

Some policy makers in the United States and other developed countries have assumed in the past that in order to promote economic development in Sub-Saharan Africa, foreign assistance and unconditional access to industrialized markets must precede the implementation of internal economic and structural adjustment programs by the Sub-Saharan nations. In light of the recent experience of a number of developing countries in which successful market-opening reforms as well as trade and investment have significantly contributed to development, the Administration recognizes that a more balanced approach to promoting development in Sub-Saharan Africa is required. Budgetary constraints also provide a further impetus to such an approach.

The Administration seeks to work closely with Members of Congress in the coming months on an approach that is aimed at assisting African development through trade, investment and access to international financial and technical assistance. Sub-Saharan African countries should expect that the benefits of increased trade, investment, and closer economic relations with the United States will be linked with their own efforts to open their markets to competition and investment, the protection of intellectual property rights, and the implementation of the economic reforms that are necessary for development.

The Administration seeks to promote trade, investment and increased development in Africa by, among other things, encouraging U.S. firms to play a more active role in the region. The Administration shares these objectives with the sponsors of the proposed "Africa Growth and Opportunity: The End of Dependency Act of 1996" (HR 4198) and hopes to work closely with Congress in the coming months to develop legislation that places due priority on building and enhancing the partnership between the U.S. and Sub-Saharan African private sectors in order to spur economic growth and development in Africa and to expand U.S. trade with and investment in the region.

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A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

I. Introduction

Importance of Sub-Saharan Africa to the United States

Economic development in Sub-Saharan Africa will benefit both Africans and Americans.(1) Stronger economies will enable Sub-Saharan nations to address a variety of complex problems that transcend regional boundaries, including civil strife, hunger, poverty, disease, refugee flows and environmental degradation. The development of Sub-African economies also contributes to the national and economic security of the United States.

In an increasingly competitive global economy, the United States cannot afford to neglect a vast region that contains almost 10 percent of the world's population and a wealth of untapped natural resources. The progress being made under the Free Trade Agreement for the Americas initiative and the Asian Pacific Economic Cooperation (APEC) forum, as well as the beneficial results of trade liberalization in many developing countries, indicate the potential value of a more engaged trade policy for the Sub-Saharan region. While the primary responsibility for African development rests with the Africans, helping to integrate reforming African nations into the global trade and financial systems is a priority goal not only for the United States, but also for its partners in the G-7.

The late Commerce Secretary Ronald Brown noted the importance of Sub-Saharan trade and development for the United States. At the Third African/African-American Summit in Dakar in May 1995 Secretary Brown stated:

The United States no longer concedes Africa's markets to European suppliers. The opportunity cost of inaction--the price we will pay for delay--is far too high. We have learned the lessons of Asia's economic development, and we have seen how quickly the nations of Latin America are growing. Now it is Africa's turn, and America will be here, as a partner and staunch economic ally.

Stronger economies in Sub-Saharan nations will create more export opportunities for U.S. goods and services and more jobs at home. U.S. businesses increased their exports to Sub-Saharan Africa by 23 percent in 1995 to a total of $5.4 billion. However, U.S. market share in the region --6.7 percent -- still lags significantly behind the 30 percent market share enjoyed by the European Union and the growing market share enjoyed by Japan (7.2 percent).

The need to reinforce the strides that a number of Sub-Saharan countries have taken toward economic and democratic reforms is so urgent that now is the time for a new approach to economic development in Sub-Saharan Africa.

Goal of Administration's Trade and Development Policy

Supporting sustainable economic development in Sub-Saharan Africa is the primary goal of the Administration's trade and development policy for the region. In response to the economic and democratic reforms implemented by many Sub-Saharan African nations in recent years, the

Administration's approach seeks to accelerate the pace of economic development by: 1) increasing trade flows between the United States and Sub-Saharan Africa; 2) promoting economic reform as well as the development of the private sector and infrastructure; 3) improving the investment climate; and 4) strengthening moves toward democratic governance. This approach includes both new initiatives developed by the Administration which appear herein and initiatives that must be developed and implemented in partnership with the Congress in the coming months.

The Administration is currently using a variety of tools to achieve its objective including:

- bilateral technical and development assistance,
- increased government-to-government dialogue,
- assistance provided by the multilateral development banks and the International Monetary Fund (IMF),
- a more extensive program of bilateral and multilateral debt reduction for heavily indebted countries implementing reforms,
- promotion of understanding of and participation in the World Trade Organization (WTO),
- bilateral trade and investment agreements, and
- export promotion and trade facilitation programs.

Significant progress has already been achieved in a number of Sub-Saharan countries. For instance, with assistance from the World Bank and the IMF, more than 30 out of the 48 Sub- Saharan nations have instituted economic reform programs that entailed liberalizing exchange rates, prices and credit markets, privatizing state-owned enterprises, instituting tighter disciplines over government expenditures, ending costly subsidies, and reducing barriers to trade and investment. In addition, multilateral trade liberalization and preferential programs have greatly reduced, though not eliminated, the trade barriers faced by Sub-Saharan merchandise goods and service exports to the United States and other countries. In 1995, for example, the average trade- weighted duty on U.S. imports from Sub-Saharan Africa was a mere 1.7 percent.

Progress in regional economic integration will also contribute to developing stronger economies. The willingness of the members of the Southern African Development Community (SADC) to conclude a trade protocol, and of certain West African states to create the West African Economic and Monetary Union, should eventually lead to the harmonization of tariff structures and the elimination of tariffs and non-tariff barriers on intra-regional trade. The Administration seeks to encourage regional economic integration consistent with WTO rules wherever possible.

In addition, democratization is underway in Sub-Saharan Africa, and its success is crucial for economic development and political stability in the region. Since 1990, more than 25 Sub- Saharan countries have held elections. Stable democracies foster predictability, accountability and the rule of law -- all elements essential to the creation of a climate in which business can thrive. At the same time, economic development increases the chances that democratization will succeed.

Still, the economic development aspirations of the peoples of Sub-Saharan Africa have yet to be fully realized. Clearly, the United States and other developed nations must do their part to promote economic growth and development in the region. Additionally, Sub-Saharan governments must recognize that the failure of many African states to open their markets has been an important factor in slowing regional economic growth. This Administration intends to work with Sub-Saharan nations to help reduce remaining barriers to trade and investment in order to foster mutually beneficial trade and investment ties between the United States and Sub-Saharan Africa over the long-term.

A major goal of the Administration's trade and development policies for Sub-Saharan Africa, therefore, must be to support African efforts to reduce tariffs and trade-related barriers so that the region may realize the full benefits of expanded trade and gain a resulting boost to growth.

Structure of the Report

The Second Africa Trade Report is organized around five major principles that served as the guideposts for the economic relationship between the United States and Sub-Saharan Africa over the past year, namely: economic reform; trade liberalization and promotion; investment liberalization; development of the private sector; and infrastructure enhancement. Each of these principles is dealt with in a separate chapter. Chapters include an exposition of the issue, a discussion of current African and U.S. initiatives that have been designed and implemented in an effort to address the issue, and planned new initiatives.

New Initiatives

The Second Africa Trade Report sets forth a number of new initiatives that have been designed to address the issues outlined in the various chapters. (See appendix A for a list of the new initiatives proposed in the report.) In addition, the Administration is actively considering other ideas, some of which are similar to ideas currently being considered by Congress and the private sector. The Administration will continue to consult with Congress, private sector advisory groups, and African governments in an effort to develop and implement programs that, along with measures taken by the Sub-Saharan African nations, will help produce growth through a mutually beneficial trade-based relationship between the United States and the countries of the region over the long term.

1The 48 countries of Sub-Saharan Africa are: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Cote d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia and Zimbabwe.

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

II. Economic Reform

Background

Continuing the trends noted in the First Africa Trade Report, the macroeconomic performance of Sub-Saharan African countries in 1995-96 showed overall improvement -- though the performance of individual countries varied widely. The World Bank estimates that Sub-Saharan Africa's GDP grew by 4 percent in 1995, and by that much or more in 1996, due to effective economic reforms, strong commodity prices, and favorable weather -- especially in western and southern Africa. Thirty Sub-Saharan countries recorded growth in per capita income in 1995, implying growth exceeding average population growth of 3 percent. Four (Uganda, Angola, Malawi, and Lesotho) grew by over 10 percent. By comparison, Africa's GDP growth averaged only 1.4 percent in 1991-94.

Even countries that have not been characterized by good economic management or reform programs, such as Nigeria and Angola, showed positive growth due to their wealth in oil (and diamonds, in the case of Angola). Other non-reformers were not so fortunate. Zaire, Rwanda, Burundi, Sierra Leone, and Liberia, for example, continued to experience static or falling growth rates, declining market shares, and lower per capita incomes. In contrast to the 1980s and early 1990s, however, these poor performers seem more the exception than the rule.

Despite the recent increases in national output, public sector deficits combined with low private sector savings resulted in savings and investment rates that will be inadequate to sustain high growth rates in most Sub-Saharan countries. For the period 1994-96, according to the World Bank, gross domestic saving in the region is projected to reach an average level of about 6 percent of GDP, double the rate in the preceding three years but still far lower than current modest rates of gross investment. Investment is rising substantially in the 30 fastest-growing countries, with half of them experiencing real growth of 11-12 percent annually in total investment and nine of them showing growth in private investment of over 12 percent per year. Nevertheless, the region's median investment-to-GDP ratio remains at a low 15-16 percent. Since foreign private investment in Africa is so low, most of the difference between the 6 percent saving rate and the 16 percent investment rate is provided by official aid donors and concessional credits.

Africa's recent macroeconomic record shows a strong trend towards stabilization, such as lower fiscal deficits, but not enough basic structural change, such as openness to private investment. Further, despite the improvements in economic growth and other indicators, many African countries still are dealing with the legacy of past mistakes in the form of high debt burdens that constrain growth prospects.

Since many Sub-Saharan countries are very poor and cannot finance needed investment from domestic resources or pay for foreign credits on commercial terms, they will continue in the medium term to need concessional assistance in the form of debt relief and official financing. To make the best use of scarce resources, aid donors will need to be increasingly selective in the countries and projects they support, with even the strongest performers being urged to accelerate the steps needed to diversify their economies. For their part, in the medium to longer term, African countries should do more to increase their share of the world's private foreign investment.

Recent African Initiatives

As of September 30, 1996, 23 Sub-Saharan countries had reform programs in effect with the IMF, including 19 Enhanced Structural Adjustment Facility (ESAF) programs. Thirty-one countries participate in the World Bank-led Special Program of Assistance for Africa (SPA) designed to coordinate donors' aid programs and build consensus on the reform agenda. IMF- and World Bank-supported reforms adopted by the participating African countries typically include realignment of exchange rates, fiscal consolidation, trade liberalization, privatization, financial sector reform, and in a few cases, regional integration of markets. Improvements in transparency and accountability of government operations have been substantial, as for example in the government of Cameroon's decision to publish the accounts of 17 of its largest parastatals. In a number of areas where major currency realignments have been carried out, such as the Western Franc Zone, parallel markets in currency trading have declined in importance.

The World Bank reports that fiscal deficits have been brought down in 13 countries (excluding external grants; 19 if grants are included), contributing to macroeconomic stabilization. While revenues were up in many countries, more than half continued to collect less than 20 percent of GDP. Total public expenditure, on the other hand, still averages about 25 percent of GDP. On the whole, management of public finances remains a weakness even in the better-performing countries. Weak tax systems and corrupt management often contribute to poor resource allocation, and excessive reliance on trade taxes as a revenue source hampers efforts to liberalize trade.

At the microeconomic level, there has been substantial movement toward freer markets for goods in most African countries, with many monopolies abolished and entry requirements reduced for new firms. Liberalization of markets for land, labor and capital, however, has been much less satisfactory, with restrictions on domestic and foreign investment in particular continuing to hamper growth in many countries.

Africa's enormous parastatal enterprise (PE) sector continues to drain scarce budgetary resources from heavily indebted, cash-strapped governments, although the scale of the problem has been reduced. As outlined the First Africa Trade Report, the PEs' dominance of many areas of economic activity, their close ties to political decision-makers, and their preferred access to credit often act to discourage the growth of a viable African private sector. Often their poor management, weak financial condition, and limited access to current technology mean their net developmental effect generally is negative. The pace of privatization in most African countries must be accelerated if the rate and quality of investment and growth are to improve. Privatization of utilities (telecommunications, power, water, transportation) offers particularly good opportunities for African governments to upgrade essential services while avoiding accumulation of new debt.

Privatization as a policy objective continued to gain support in 1995-1996, and the rate of implementation increased in several countries. Important examples included divestiture of Ashanti Goldfields, Kenya Airlines, and major banks in Ghana, Mozambique, and Kenya. Senegal invited offers for 51 percent of the shares of SONACOS, the large peanut oil parastatal. In Zambia, 46 of 50 PEs targeted for divestiture (from a total of about 150) have been sold or liquidated; annual revenue of a bakery privatized three years ago rose from $57,000 to $1.2 million in 1995.

The pace of privatization in most countries is still slowed, however, by fear that it will reduce employment and create social unrest, by the resistance of vested interests, by the lack of adequate capital markets, and by a continuing unwillingness to yield control of some functions to the private sector. An issue often raised by African governments reluctant to privatize is how to maintain enough control over "strategic" industries to attain social objectives. Many have chosen to do so by maintaining a minority or vetoing share in PEs after divestiture; whether this will be an optimum means of achieving the purpose remains open to question.

At the IMF/World Bank Annual Meetings in September, African governments announced they have committed themselves to taking the lead in building institutional and human capacity in their countries. The announcement acknowledges that most weaknesses in capacity stem from poor governance, and that African governments must do a better job of policy implementation, budgeting, managing, educating, and creating an enabling environment for the private sector. The initiative called on the World Bank and other donors to do more to support capacity-building efforts designed by Africans rather than by donors. If implemented effectively, this could be a useful step toward establishing African control of African development.

Regional integration has long been an objective honored more in rhetoric than in reality in Africa. In the last two years, however, at least three integration initiatives have been taken that show promise of being effective. The countries of the Western Franc Zone have begun to create an economic and monetary union and already can point to solid progress, particularly in the areas of banking and financial sector reform. In East Africa, Kenya, Uganda, and Tanzania announced in early 1996 a revival of regional integration, commonly known as East African Cooperation, that had not existed since the demise of the former East African Community. And the SADC countries, benefiting from economic recovery and the ending of regional wars, have been striving towards unprecedented political and economic cooperation.

Status of Current U.S. Initiatives

- *Macro policy*

  The United States recently pledged $1.6 billion of new funding for the International Development Association (IDA), the World Bank's concessional lending "window." This pledge effectively leveraged total new IDA commitment capacity to $22 billion during the period 1997-99, of which approximately half has been prospectively programmed for Africa. Congress did not appropriate the full amount requested for fiscal year 1997 ($700 million vs. $934 million) to clear U.S. arrears under the previous replenishment, and future funding is in doubt due to restrictions placed on procurement from U.S. suppliers under the IDA Trust Fund. The Treasury and State Departments are working vigorously to have these restrictions removed. It is anticipated the Administration's specific budget request for IDA in fiscal year 1998 will be substantial.

  With regard to the IMF's ESAF, the Administration will seek authorization and, over the period 1998-2002, appropriation for the remaining $75 million of its $100 million commitment to the ESAF Subsidy Account. In addition, the Administration has strongly supported ESAF's role as the mechanism for providing the IMF's share of financing for the joint initiative, with the World Bank and Paris Club, for offering debt relief to the most heavily indebted poor countries. ESAF programs are often a precondition for multilateral development bank initiatives, Paris Club debt rescheduling, commercial bank debt restructuring, and bilateral assistance. Over half of ESAF borrowers are in Africa. Aside from ESAF's role as a financing mechanism, the IMF and World Bank Boards have agreed that satisfactory performance under an ESAF program will be a prerequisite for a country to receive debt relief from the international financial institutions (IFIs).

  The United States has been the leading advocate within the IFIs for providing more assistance to countries that liberalize their economies and less to those that do not. The Administration is continuing its efforts during the Country Assistance Strategy review process at the World Bank to ensure that the Bank implements its policy of basing the level of assistance given to a country on that country's economic reform record.

The United States is urging bilateral and multilateral debt reduction for the heavily indebted poor countries because many of them have accumulated external debts that are too large to be serviced and significantly constrain economic development. In recent reschedulings, the United States and other creditors have agreed to reduce these countries' bilateral debts by as much as 67 percent within the Paris Club framework, provided the debtors maintain economic reform programs. The intent is to help these countries to develop and grow, although for some, additional action beyond bilateral debt reduction will be necessary.

The United States, with congressional authorization and appropriation, has participated in debt reduction through the Paris Club of official creditors since fiscal year 1994. Congress has provided continuing appropriations for this program in fiscal year 1997, which this year will benefit as many as 13 countries -- including 10 in Sub-Saharan Africa. Further appropriations will be needed in coming years to continue current debt reduction, and for the countries with the most unsustainable debt burdens, to participate in debt reduction of up to 80 percent.

The United States has also pledged $200 million in new funding for the African Development Fund (AfDF), which lends at concessional rates to the poorest African members of the African Development Bank (AfDB). This pledge brought the AfDF replenishment negotiations to a successful close, leveraged total new commitment capacity for AfDF of $2.9 billion, and laid the groundwork for reactivation of the Fund after nearly three years of dormancy. Congress did not appropriate any funding for either the AfDB or the AfDF in fiscal year 1997, however. In FY 98, the Admnistration will request a subtantial first payment toward our AfDF pledges.

U.S. leadership in the international financial institutions is critical to both African and U.S. interests, particularly given the World Bank's crucial role in promoting market-oriented structural reform in the world's poorest countries. The Administration attaches a high priority to U.S. participation in all these mechanisms, and to meeting U.S. financial commitments, particularly with regard to IDA, where there are substantial U.S. arrears. The arrearages endanger important development resources for Africa and jeopardize the ability of U.S. firms to compete for projects financed by these funds in Africa's poorest countries.

The success of our efforts to encourage new and ongoing initiatives by the development banks in Africa will be partly determined by our ability to meet U.S. financial commitments to IDA and the African Development Fund. The Administration is committed to working closely with Congress to address these issues.

B. *Commercial law reform*

The Department of Commerce is undertaking a program in the area of commercial law development assistance to South Africa that has several components:

(1) Under the auspices of the U.S.-South African Business Development Committee's (BDC) Commercial Law working group, the Department of Commerce and the South African Ministry of Justice co-sponsored the first joint commercial law seminar in South Africa in May 1995. The purpose of this and future seminars is to encourage dialogue between U.S. and South African participants regarding their respective commercial legal systems and business practices. Such a

dialogue enhances commercial relations generally and will improve understanding of the legal regimes governing trade and investment in both countries. Over 300 South African attorneys and business people attended the first legal seminar.

(2) In affiliation with the BDC, the private sector will fund a *Diversity in South Africa Commercial Legal Practice Initiative* to facilitate historically disadvantaged South African law school graduates' access to clerkships at large South African commercial law firms. Funds are being solicited principally from American corporations and transferred to the participating South African law firms for the payment of stipends to the law clerks. Clerkship represents one of the few points of entry into commercial law practice in South Africa. By increasing the number of historically disadvantaged law school graduates who obtain clerkships with commercial law firms today, the initiative will promote diversity in South African commercial legal practice in the future.

The Department of Commerce has been unable to stage a seminar in South Africa on intellectual property rights (IPR) due to tightened resource constraints. The need for such a seminar arose during the apartheid period when South African businessmen began to use the trademarks of U.S. firms. U.S. anti-apartheid laws, which prohibited U.S. firms from investing in South Africa, prevented U.S. firms from using or protecting their intellectual property rights during that period and South African users, moreover, challenged U.S. registration of the marks in South African courts on the grounds of U.S. non-usage. The need for IPR seminars in South Africa seems less pressing in view of favorable developments regarding IPR policy there, and the South African Supreme Court Appellate Division's finding in favor of our American company's right to its exclusive use of its trademark in South Africa. The U.S. Information Agency (USIA) plans to stage a West African IPR seminar in Benin, the first of several projected subregional conference on the topic.

C. *Better governance*

With strong support from the United States, in April 1996, the Organization for Economic Cooperation and Development (OECD) Council approved a recommendation calling for the elimination of the tax deductibility of bribes to foreign public officials in international business transactions. During the 1997 OECD Ministerial, the United States will seek a clear recommendation on criminalization of foreign bribery. The United States has strongly pushed the IFIs to focus more on governance issues, including bribery and corruption. Recently the World Bank adopted enhanced anti-corruption provisions for loan conditions, procurement rules and standard bidding documents. The Administration has been a vocal supporter of including corruption issues on the agenda of Consultative Group meetings and other multi-donor fora. This has given the issue a higher profile than it would have had otherwise. The United States is also advocating action in the United Nations Economic and Social Council on the issues of bribery and corruption.

D. *Rationalization of the public sector: privatization*

USAID, through its programs and policy dialogue, has encouraged privatization efforts throughout the continent. The agency has been the key donor for technical assistance to the Zambia privatization effort. Other examples include assistance to the Ethiopian Ministry of Industries, the Malawi railroad privatization program, and a policy dialogue in Senegal that resulted in efforts to privatize SONACOS, one of the largest parastatals in the country. In Cote d'Ivoire, assistance was provided to the Enterprise Network in the privatization of a multi-million dollar rubber plantation. Efforts are underway to assist in the privatization of Zambia's copper industry.

E. *Reorienting multilateral lending practices to the poorest countries*

The United States is urging all the multilateral development banks to focus their concessional lending on the historically poorest and least creditworthy countries that are now demonstrating a real commitment to sound policies, private sector development, and sustainable growth. Countries that no longer need concessional resources should be "graduated." The United States and other IDA donors have agreed that China no longer will receive IDA resources under IDA-12--potentially freeing more resources for Africa.

New Initiatives

- A debt-reduction initiative started after the 1995 G-7 Halifax Summit encouraged the IMF and World Bank to consider measures to assist heavily indebted poor countries (HIPCs), with the objective of reducing their debt burdens to sustainable levels. The HIPC Debt Initiative will be funded by an initial $500 million contribution from World Bank net income, an initial transfer by the IMF of Enhanced Structural Adjustment Facility reserves for individual country cases, and additional debt relief of up to 80 percent from the Paris Club. Other multilateral creditors, including the Inter-American Development Bank and the AfDB and AfDF, are in the process of determining their contributions to this program. In order to be eligible for additional relief, countries must demonstrate a sustained track record of sound economic policy implementation. The Department of the Treasury will continue to provide strong backing so the World Bank/IMF/Paris Club HIPC program can proceed rapidly.
- At the 1996 G-7 summit in Lyon, the heads of state requested that major international economic institutions (UN, IMF, World Bank, World Trade Organization) devote special attention to Africa. In response, the four institutions pledged to give top priority to economic reform and poverty reduction programs essential to economic growth in Africa. The Administration (Treasury, State, NEC, USAID) will be working with these international institutions to develop more specific proposals in time for consideration at the next G-7 Summit in Denver in July, 1997.
- In the past two and one-half years, the African Development Bank/African Development Fund (AfDB/AfDF) have gone through some of the most extensive reforms of any of the multilateral banks. While this process was underway, donor countries withheld concessional funding for the AfDF and postponed consideration of a capital increase for the AfDB. Now that these reforms are substantially complete, in fiscal year 1997 the United States will undertake two major initiatives with respect to the Bank. First, while seeking to meet its obligations to the Bank, the Administration will urge AfDB to intensify its cooperation with the IMF and World Bank on policy-based lending. Over the next year, AfDB is expected to participate with the World Bank in at least two policy-based loans. Second, the Administration will press to make the voting influence of the Bank's non-African shareholders in its decision making more commensurate with their financial contribution.
- In 1997, USAID will implement a new $2.5 million bilateral agreement with the South African Ministry of Public Enterprises to assist the ministry in the restructuring state assets and the possible privatization of public enterprises.

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

III. Trade Liberalization and Promotion

Background

The United States has a growing strategic and commercial stake in the expansion of African trade flows. This expansion will contribute to African economic development and make Africa a more attractive market for U.S. firms. In 1995, Sub-Saharan Africa exported $12 billion worth of products to the United States, mostly petroleum, metals, and minerals. Sub-Saharan Africa is also a growing market for U.S. goods. U.S. merchandise exports to the region jumped nearly 23 percent in 1995, to $5.4 billion. The United States continues to export more to Sub-Saharan Africa than to all the Newly Independent States of the former Soviet Union combined. U.S. exports to South Africa alone are greater than U.S. exports to Eastern Europe.

Africa's current trade shares are far below historical levels, however. In the mid-1950s, Sub- Saharan Africa accounted for 3.1 percent of global exports. By 1990, this share had fallen to 1.2 percent. Low levels of global exports from the region can be partially attributed to the highly restrictive import regimes in place in many Sub-Saharan nations. As a result, Sub-Saharan Africa is a region greatly insulated from import competition and sheltered from the effects --beneficial as well as disruptive -- of global competition.

African trade regimes also contain a strong anti-export bias. A combination of high import tariffs -- Sub-Saharan tariffs average over 28 percent -- and other trade barriers, such as export taxes, continue to inhibit international competitiveness, holding Sub-Saharan annual growth of non-fuel exports to 5.4 percent, compared with a 12.5 percent annual export growth rate in other non- OECD countries. The compound effect of such differential growth rates is striking. Over the past three decades, Sub-Saharan African exports of non-fuel goods grew only four-fold, versus a 25-fold increase for other non-OECD countries.

Restrictive trading regimes in Sub-Saharan Africa have contributed to the region's inability to produce diversified exports and to exploit significantly the preferential tariff access to the U.S. market it enjoys under the Generalized System of Preferences (GSP).

Protectionist trade policies in Africa were analyzed in a recent World Bank study that concluded protectionism has been costing the region as much as $11 billion per year -- equivalent to the total amount of external aid to the region in 1991. The study found that both tariff and non-tariff barriers, particularly in the poorest African countries, were far more restrictive than in the emerging markets of Southeast Asia. The study dismissed charges that industrial country trade barriers account for Africa's declining share of world trade, noting that Africa has benefited from trade preferences in such markets. Instead, the study concluded that African protectionism, especially against essential imports such as agricultural inputs and machinery, has made most African countries uncompetitive and left them with a declining share of the market for a few commodities that are themselves of declining importance in world trade. Any effort to reintegrate African countries with the world market must tackle this problem squarely.

Recent African Initiatives

Many African countries, although members of the General Agreement on Tariffs and Trade (GATT), were not active participants in the Uruguay Round (UR) negotiations. In fact, there was no lowering of the region's average tariffs in this, the world's most ambitious trade-liberalizing agreement, despite initiatives undertaken by the WTO to make participation less burdensome for developing countries. At present, 33 Sub-Saharan countries have become members of the WTO and two additional countries have formally requested WTO accession. Five other countries that were GATT members are expected to seek full membership in the WTO. The WTO leadership, for its part, has undertaken initiatives to make WTO participation less burdensome for these countries.

While tariff preferences can play a positive, if temporary, role in Africa's trade and economic development, the focus of attention in Africa should shift toward efforts to reduce its own barriers. Broader membership and participation by African countries in the WTO, and in other multilateral institutions, will help them undertake and enjoy the benefits of trade and investment liberalization. Because tariff preferences are temporary and offered unilaterally, they do not grant the stability and predictability needed to attract foreign investment.

Many Sub-Saharan nations have also taken steps toward regional integration. Although the regional proposals vary in structure, they have as a common objective trade and investment liberalization. The most advanced and tightly structured effort is in the seven-member West African Economic and Monetary Union, which has a goal of a regional financial market by early 1997 and a customs union by the end of 1997. The SADC countries signed a protocol in August 1996 to signal its members' commitment to trade and investment liberalization. Tariffs within the SADC community are to be gradually eliminated within eight years. A Cross Border Initiative is supported by a number of eastern and southern African countries united by their commitment to reduce barriers to trade and investment. Finally, Kenya, Uganda, and Tanzania have revived their former regional community under the name of East Africa Cooperation. These regional coordination and trade liberalization efforts appear to be on track, but must continue moving forward to be effective.

Status of Current U.S. Initiatives

- *Integration into international trading system*

  The United States has promoted efforts in several international organizations (WTO, World Bank, IMF, AfDB) to increase the integration of African countries into the international trading system. Within the framework of the WTO and its Committee on Trade and Development, the United States has encouraged the WTO to refocus its technical assistance programs on promoting the understanding and implementation of WTO obligations among its members. As a result, technical assistance programs now give special attention to the needs of the least-developed developing countries. The WTO is also exploring avenues for diversification of African exports and new forms of joint action to secure a greater share of world trade for the African continent. This includes briefing trade officials in Africa, and lending assistance to business communities in identifying trade and market opportunities so they may diversify their exports.

  The State Department briefed African Ambassadors on WTO issues prior to the Singapore Ministerial Meeting of the WTO. During the Singapore Ministerial, USTR convened a session to discuss U.S. trade policies vis-à-vis Africa and African participation in the WTO.

The United States supported WTO efforts to coordinate closely and cooperate with other international organizations to develop a comprehensive program aimed at Africa. A framework agreement for enhanced cooperation between the WTO and the IFIs is close to being concluded. It will provide for greater WTO input to IFI programming at both the executive and the staff levels and should help improve the treatment of trade policy issues in IFI-supported adjustment programs.

In addition to supporting WTO and IFI efforts to assist developing countries in Africa and elsewhere on trade issues, the United States is encouraging African efforts to liberalize trade regimes individually and collectively. For example, USTR is encouraging the liberalization of trade regimes by giving increased attention to identifying arbitrary and unfair tariff barriers that exist in certain African nations in the *National Trade Estimates Report*. In some cases, these citations have led to bilateral consultations aimed at arriving at resolutions that will encourage increased trade flows.

The United States actively supported the adoption of a plan of action on food aid at the Singapore Ministerial in December 1996. The Ministers agreed that, during 1997, members of the Food Aid Convention and other interested countries and relevant international organizations should review the current food aid situation and develop recommendations for establishing a level of food aid commitments, covering as wide a range of donors and donable foodstuffs as possible, that is sufficient to meet the legitimate needs of developing countries during the implementation period of the WTO Agreement on Agriculture. These recommendations should include guidelines to ensure that an increasing proportion of food aid is provided to least-developed and net food-importing developing countries in fully grant form and/or on appropriate concessional terms in line with Article IV of the current Food Aid Convention, as well as means to improve the effectiveness and positive impact of food aid.

B. *Regional coordination*

USAID's Initiative for Southern Africa (ISA) has sponsored a number of activities to provide small- and medium-sized enterprises with a forum for discussion of regional policy. These activities include the formation of the Small Enterprise Promotion Advisory Council, as well as the establishment of a permanent office of the Southern Africa Enterprise Development Fund in Johannesburg. The Fund has already received 262 investment proposals from businesses in the region. Also under the ISA umbrella, a regional framework has been developed with the SADC Transport and Communications Commission to improve the regional flow of goods and services.

In the SADC, where regional integration is underway, USAID's Regional Center for Southern Africa financed the preparation of SADC's regional trade protocol agreement. In May 1996, a group of USAID economists traveled to the SADC countries to assess the trade and investment environment and identify major constraints to regional integration. USAID's subsequent report was the basis for formulating a program of assistance to lower trade and investment barriers in the Southern Africa region.

Under a memorandum of understanding signed by Vice President Gore and SADC in December 1995, the United States committed to assisting SADC efforts to develop a protocol that would eliminate trade barriers. In March, the USTR reviewed and discussed the protocol with SADC's Executive Director and several of its key officials. The protocol was signed and finalized on August 24, 1996, by the twelve member countries of SADC. Implementation of the accord will be a significant step in liberalizing trade practices regionally, and the U.S. government plans to assist SADC in implementing the protocol by addressing key issues in economic integration and trade liberalization in a trade protocol forum in early 1997.

In late 1995, the Greater Horn of Africa Initiative provided funds for a study that examined policy and regulatory constraints faced by businesses interested in investing in the Greater Horn of Africa countries. The results of this assessment were presented at the East and Southern African Business Organization conference held in Nairobi in May 1996. Follow-up consultations will be held with policy makers in individual countries. USAID also supported the restructuring and revitalization of the Intergovernmental Authority on Development (IGAD), a regional organization with a mandate to harmonize economic policies among the Horn countries and to improve food security in the region.

C. *Generalized System of Preferences (GSP)*

The Administration has been successful in obtaining an important amendment to the GSP statute. (The GSP program provides duty-free entry for half of the 9,000 products listed in the U.S. Tariff schedule.) As reauthorized, the program should be more useful to the least developed beneficiary countries, particularly those in Africa. The least developed beneficiary country (LDBC) exemption from competitive need limits continues to apply. These countries are not limited to a ceiling on the value or amount of imports of eligible GSP items.

Another special benefit for the LDBCs is the possible addition of up to 1,895 tariff line items to the list of articles with preferential duty-free access. Many of the Sub-Saharan countries of Africa could benefit because they meet United Nations' criteria for least developed countries.

The Administration has begun a process for determining the sensitivity of each of the new tariff line items being considered. As part of this review, the U.S. International Trade Commission (USITC) was requested to provide advice, and public comment has been solicited. The USITC held public hearings and plans to complete its assessment by March 1997. USTR will conduct additional hearings and, supported by the USITC evaluation, a USTR-led inter-agency committee will determine which of the products will be eligible for GSP treatment. The entire process should be completed by mid-1997.

Since the reauthorization of the GSP program in September 1996, the Administration has focused on how to increase African countries' participation in the program. Total Sub-Saharan GSP imports, which amounted to $492 million in 1995 (of which South Africa alone accounted for $357 million, or 73 percent of total GSP imports from Sub-Saharan Africa) accounted for only 2.7 percent of all GSP imports.

The Administration intends, therefore, to launch a sustained effort to inform African governments and the private sector of the GSP program benefits, requirements, and methods of operation. With the renewal of the GSP program, USIA can now proceed with plans to hold Worldnet programs on GSP and on other topics related to trade with Africa. Depending upon available funding, on-site seminars/workshops on "how to" import into the United States will be arranged. In addition, appropriate instructional materials will be supplied to U.S. embassy officials to enable them to conduct follow-on training sessions as needed.

The Administration has determined that, once SADC members ratify their trade protocol, it will designate SADC countries as "regional GSP beneficiaries." This will allow products produced partially in one or more SADC countries having GSP status to qualify for GSP treatment.

Extension of this benefit to SADC members who are individual GSP beneficiaries should provide an incentive to increase regional processing for export.

D. *Intellectual property protection*

In January 1996, the Department of State stressed to all African countries the importance of intellectual property protection and urged early implementation of the WTO's Trade-related Aspects of Intellectual Property Rights (TRIPS) Agreement. A seminar organized by the World Intellectual Property Organization (WIPO) and WTO was held in Abidjan early in 1996 for African representatives to review the implementation of the TRIPS Agreement. The State Department will work together with USIA to examine the feasibility of a Worldnet broadcast discussing protection of intellectual property and its relation to sound investment regimes.

The Trade and Investment Committee (TIC) of the U.S.-South Africa Binational Commission (BNC) has been an effective vehicle for improving bilateral cooperation on commercial issues. The U.S. Government used the BNC/TIC to sensitize the South African Government to U.S. investor concerns about South Africa's protection of intellectual property rights. South African Minister of Trade and Industry Erwin announced his government's intention to move forward expeditiously with two legislative amendments now before Parliament designed to bring national trademark provisions into conformity with WTO and Paris Convention standards. Shortly thereafter, the South African Supreme Court Appellate Division found that a U.S. corporation is the rightful owner within South Africa of its trademark. These actions allowed the United States to keep South Africa off the *Special 301 Watch List* from which it was provisionally removed in April 1996.

E. *Non-traditional export promotion*

USAID's focus on increasing private sector non-traditional exports in Kenya, Ghana, Uganda, Zimbabwe, Guinea-Bissau, Guinea, and Malawi continues to help these countries generate much needed foreign exchange and incomes for micro-enterprises and farmers. In Ghana, for example, USAID's market liberalization efforts have improved the enabling environment for non-traditional export production and marketing. In Guinea-Bissau, the USAID mission encourages the production and exports of cashews through its assistance to the National Agricultural Producers and National Association of Women with Economic Activities.

F. *U.S. trade promotion*

The Commercial Development Mission to Africa led by the late Secretary of Commerce Ron Brown in February 1996 built a foundation for expanded commercial ties between Africa and the United States. The mission visited five countries: Cote d'Ivoire, Ghana, Kenya, Uganda, and Botswana. In each country major initiatives were undertaken with African governments and private sector representatives to ensure continued benefits for both Africa and the United States.

During the mission, Secretary Brown held discussions with government leaders and private representatives from nearly 40 African countries and more than 150 U.S. firms. He announced contracts and agreements for American companies totaling nearly $500 million, and he advocated on behalf of U.S. firms competing for projects that eventually could total more than $3 billion in U.S. exports. The Secretary challenged African leaders to recommit their countries to democracy, free enterprise, and lowering of commercial barriers.

Secretary Brown held regional meetings in West, East, and Southern Africa to demonstrate the importance of regionally-focused economic development. He signed a Memorandum of Understanding between the Department of Commerce and SADC aimed at increasing trade and investment ties between the United States and this important twelve-country regional organization by promoting SADC project opportunities to U.S. industry. The SADC agreement complements the Initiative for Southern Africa implemented by USAID, which is designed to help SADC increase regional trade and economic integration. Secretary Brown also opened a new Commercial Service office in the U.S. Embassy in Accra, Ghana, acknowledging the growing interest of U.S. business in Ghana as that country aggressively implements economic reforms.

To maximize scarce resources, three of the existing Commercial Service offices in Africa -- Abidjan, Nairobi, and Johannesburg -- have taken on regional outreach responsibilities in cooperation with their State Department colleagues in neighboring diplomatic posts. The regionalization of the Commercial Service enables the Department of Commerce and the Department of State to combine their efforts in trade promotion, business facilitation, and direct support for American companies. The Commercial Service has provided training to State Department officers and Foreign Service nationals on Commerce programs and services. The regional offices are also developing integrated plans for commercial promotion throughout Africa's sub-regions. For example, the Abidjan office arranged for a foreign buyer delegation from throughout West Africa to visit the National Association of Home Builders trade show in Houston in January 1997. The Johannesburg office sponsored a trade mission to Mauritius by U.S. company affiliates based in South Africa and is planning a similar mission to Angola and Mozambique.

U.S. ambassadors to African countries have regularly reported on key projects of interest to the U.S. private sector. In July 1996, the Department of State instructed ambassadors to place due emphasis on trade development and on reporting on key projects of interest to the U.S. private sector. State reinforced the need for this reporting in guidelines sent to embassies for the preparation of each Country Commercial Guide, an annual report distributed through the National Trade Data Base for use by the U.S. business community.

The State Department's Office of the Coordinator for Business Affairs and its Africa Bureau have jointly developed a matrix of key projects that is shared with the private sector. In 1996, State and Commerce identified key projects requiring advocacy prior to the trips to Africa by Secretary of State Christopher and the late Secretary of Commerce, Ron Brown. The Departments of State and Commerce will continue to cooperate closely to promote U.S. commercial interests in Africa.

The Trade Promotion Coordination Committee (TPCC) Africa Working Group was created in April 1996. The group, involving senior representatives of State, Commerce, USTR, Treasury, Labor, Agriculture, the Export-Import Bank (Eximbank), the Overseas Private Investment Corporation (OPIC), the U.S. Trade and Development Agency (TDA), Energy, USAID, and other interested agencies, meets as necessary to follow up on initiatives of the Brown mission, and to address such key issues as trade and project finance, reverse commercial missions, and outreach to the U.S. business community. The Working Group has:

- met with representatives of the U.S. business community to exchange views on Nigeria and to ensure that U.S. business interests are reflected in formulation of U.S. policy;
- formulated plans for the first reverse commercial development mission to the United States from SADC, expected in 1997;
- coordinated planning for a forum -- to be held during the SADC reverse commercial development mission -- on implementing the recently-signed SADC Trade Protocol, by which the U.S. Government would provide guidance and assistance in achieving greater

economic integration and increased trade among SADC members;

    - set an agenda for an ongoing commercial dialogue with SADC, aimed at promoting continued economic reform and closer commercial ties with the United States; and
    - held two workshops on trade and project finance with U.S. businesses, banks, and government representatives.

New Initiatives

- In order to ensure higher level attention and coordination of our trade policies toward Africa with overall trade policy goals, the Deputy USTR has in the past year assumed responsibility for senior level direction of U.S. trade relations with Africa. In addition, USTR is considering creation of a new position within its current resources for an Assistant USTR, whose responsibilities will be dealing with trade policy questions related to Africa.
- The Administration is reviewing the funding possibilities for a multi-year reauthorization for the GSP program. The program must be administered in a stable and predictable manner if it is to provide an incentive to development. In 1997, additional products imported from least developed beneficiary developing countries, mainly in Africa, will be selected for GSP eligibility. These determinations are being made on an accelerated basis and will implement the authority granted to the President in the amended GSP statute that became effective October 1, 1996.
- At the WTO and World Intellectual Property Organization (WIPO), USTR will urge that African countries be provided technical assistance and training in WTO and WIPO procedures and agreements. USIA will provide support to a sub-regional conference on Intellectual Property Rights (IPR) that will be held in Benin and will consider supporting additional IPR conferences that have been scheduled for Africa.
- USTR will send a delegation to key African countries to explain the requirements of the U.S. textile and apparel import regime.
- The Commerce Department will work with the private sector to post a Home Page for African Opportunities on the Internet that will include information on trade and investment opportunities, trade programs, equity funds, and banks available for trade and project finance.
- The State and Commerce Departments will work with the private sector to organize a tour throughout the United States by U.S. Ambassadors to African countries to brief and consult with U.S. companies in order to stimulate interest in doing business in Africa.
- In order to encourage active participation by African countries in the WTO, comprehensive briefings for African Ambassadors on the WTO and other trade and development issues by the State Department and the office of the U.S. Trade Representative (USTR) will be provided during 1997.
- Commerce will initiate a commercial dialogue with the SADC countries with the following goals: a) continued progress toward market-based economic reform in Africa; b) promotion of regional development cooperation; and c) closer commercial relations with the United States. The dialogue will involve the public and private sectors of each side to strengthen public-private cooperation. The experience with SADC could serve as a model for other sub-regions in the future.
- While the Interagency Credit Risk Assessment System (ICRAS) process is classified, private sector representatives and other entities will be invited to provide information and perspectives to the Commerce Department on African economies which might be useful to ICRAS participants

in determining credit ratings.

- Commerce and USIA will co-sponsor a "reverse commercial development mission" to the United States by SADC trade ministers and private sector representatives, as a follow-up to the February 1996 Commercial Development Mission to Africa led by the late Secretary of Commerce Ronald H. Brown. The mission will visit Washington and other cities for matchmaking sessions with U.S. firms.
- Eximbank has named a Senior Vice President as liaison to the Eximbank Working Group of the Corporate Council on Africa and plans to continue its dialogue with that organization with a view to providing maximum support to U.S. exporters interested in African markets.
- This fiscal year, Eximbank will send a mission to Africa led by an Eximbank Director.
- Commerce and USAID will co-sponsor a Trade Protocol Forum for the visiting SADC delegation, to assist the SADC countries in implementing the trade protocol they signed in August 1996. The forum will discus issues in trade and economic integration, costs and benefits for the SADC members, and implications for the government and private sectors of SADC and the United States.
- Commerce devoted the January 1997 issue of *Business America* to Africa, including articles on the region's commercial opportunities and information on U.S. Government programs to help firms in African markets.
- U.S. embassies in Africa will be instructed to expand commentary in their annual Country Commercial Guide to catalog market access barriers to U.S. products. Such a catalog of trade barriers would include those that are WTO incompatible, but also those in which WTO acceptable tariffs are so high as to discourage American exports (*e.g.*, extremely high tariffs on large vehicle engines.)
- Commerce and OPIC will host roundtables on commercial development in Africa to explore with appropriate private sector organizations ways to structure and support a commercial development mission to Africa by U.S. banks and other financial institutions. The objective of such roundtables and prospective mission would be to better acquaint U.S. private sector financial institutions with African commercial opportunities, with the hope they might expand their operations in the region.
- TDA will fund reverse trade missions involving high-level Africans in the health industry and solid waste industry. By doing this, American firms will learn of new market entry opportunities and the Africans will become more aware of U.S. technologies and specific firms capabilities.

USTR

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

IV. Investment Liberalization

Background

Improvements in the legal framework for foreign investment have not offset the other adverse conditions that dissuade foreign investment in many African countries, however. Sub-Saharan Africa, excluding South Africa, only attracted 2.9 percent of global FDI inflows to developing countries in 1995, and that share appears to be declining. Between 1984 and 1989, Africa attracted 6.6 percent of the annual average inflow of FDI to developing countries. From 1990 to 1995, the region netted only 3.3 percent of the annual average inflow of FDI to developing countries.

Most Sub-Saharan African countries actively seek foreign investment and many have liberalized their investment policies in order to attract foreign investors. Nonetheless, Sub-Saharan Africa has fallen behind other developing regions of the world in the competition for foreign private capital. A number of Sub-Saharan African countries still exhibit restrictive trade policies, inefficient public enterprises, and/or legal systems that effectively discourage private investment, both domestic and foreign. Poor physical infrastructure, high levels of indebtedness, uneven progress in implementing economic reforms under structural adjustment programs, and low levels of skills in the work force are other adverse factors that make it particularly difficult for many African countries to attract foreign investment. U.S. firms operating in Sub-Saharan Africa regularly stress the importance of more consistent and transparent application of laws, labor regulations, customs procedures, and currency remittance procedures to improving investment climates. Corruption is often cited as a disincentive to investment in the region.

Many Sub-Saharan African countries still restrict foreign direct investment (FDI) in key industries, although the number of industries closed to foreign ownership has been reduced. Investment flows to Sub-Saharan Africa are concentrated in oil-exporting countries (Angola, Cameroon, the Congo, Gabon, Nigeria) and in South Africa, but some other countries also attract significant amounts of FDI (Cote d'Ivoire, Namibia and Swaziland).

Moreover, the markets of African countries are often too small to attract foreign investment in many sectors, though efforts are underway to address this problem through regional integration. To increase their appeal to potential investors, African countries must work to improve and modernize their economic policies and regulatory climates as they strive to increase their market size through regional integration.

One reason the region has received lower FDI inflows from privatization and debt-equity swaps is that Sub-Saharan countries have lagged behind other developing regions in privatizing state- owned enterprises. A number of Sub-Saharan countries have now begun privatizing programs that target foreign investors and have sought to develop stock markets to attract foreign investors. The countries of the West African Franc Zone (UEMOA) for example, are creating a regional stock exchange in Abidjan, Cote d'Ivoire. Nevertheless, the stock markets in Sub- Saharan African countries other than South Africa are relatively thin and therefore have attracted far less portfolio investment than developing countries in Latin American and Asia.

In Asia and Latin America, FDI is now the largest component of net resource inflows from abroad. Sub-Saharan Africa, however, continues to obtain the bulk of its resource inflows from foreign assistance in the form of grants and official loans. According to the World Bank's 1996 Debt Tables, FDI only accounted for 10 percent of net resource flows to Africa in 1995.

Despite a declining share of global FDI flows, many Sub-Saharan countries offer significant investment opportunities. Africa has large petroleum reserves and important deposits of gold, uranium, bauxite, and diamonds, among others. There are also substantial investment opportunities in resource transformation industries, services, tourism, and infrastructure. Botswana, Swaziland, Lesotho, Mauritius, Ghana, and Uganda are examples of countries that have tailored their investment regimes to fit their local advantages in order to attract greater flows of FDI.

Recent African Initiatives

During the past decade, many Sub-Saharan African countries have introduced or made adjustments to their investment codes or guidelines in order to attract more foreign investment. Countries with relatively favorable investment climates, such as Ghana and Uganda, made revisions to become more attractive. Former socialist countries, such as Benin, Guinea, and Mozambique, enacted new codes that offer incentives for foreign investors.

A large number of Sub-Saharan African countries also concluded bilateral investment treaties (BITs) and became members of multilateral treaties that provide protection to investors. Sub- Saharan countries had signed 137 bilateral investment treaties by January 1, 1995. However, only four Sub-Saharan countries -- Senegal, Zaire, the Congo, and Cameroon -- have concluded BITs with the United States. (U.S. international investment policy makes its requirements for a BIT more stringent than those of other major investor countries.) Thirty-two are members of the convention establishing the Multilateral Investment Guarantee Agency. Thirty-seven Sub-Saharan countries have joined the Convention on the Settlement of Investment Disputes between States and Nationals of other States, 33 have subscribed to the Convention for the Protection of Industrial Property, and 19 are members of the Convention on Recognition and Enforcement of Foreign Arbitration Awards.

An increasing number of African countries are using the World Bank's International Finance Corporation (IFC) and its services to enhance their private sectors. So far, 28 countries have obtained assistance from the IFC's Foreign Investment Advisory Service that reviews the country's investment climate and provides advice on investment laws. IFC has also played a constructive role in promoting portfolio investments in African countries through the establishment of the U.S.-based Africa Emerging Market Fund.

Status of Current U.S. Initiatives

- *Improvement of Africa's Investment Regimes*

  A number of initiatives were identified in the First Africa Trade Report to help advance investment liberalization in Sub-Saharan Africa. Significant progress was made on the initiatives that dealt with additional support for U.S. direct investment in Africa. In an important development, OPIC authorized the creation of a $120 million private investment fund, the New Africa Opportunities Fund, which will invest in projects in the countries of Southern Africa. Moreover, USAID support helped create new private sector business associations and networks such as the African Business Round Table, the West Africa Enterprise Network, the Ugandan

National Forum, and, more recently, the All-Africa Businesswomen's Association. USAID also funds the Black Integrated Commercial Network Support Project in South Africa. The Project recently sponsored a conference that resulted in 85 franchising agreements between U.S. and South African firms.

B. *Support of foreign direct investment*

During the July 1996 Gore-Mbeki Commission proceedings, OPIC pledged to conduct project finance seminars in South Africa. OPIC's continued efforts to provide political risk insurance coverage for projects in Africa also bore fruit. In fiscal year 1995, OPIC insured investments valued at $68 million to cover four new projects in East and Northwest Africa, and insured the expansion of eight existing projects. In fiscal year 1996, OPIC insured 10 new projects and the expansion of four existing projects in African countries. An additional ten projects in African countries are already in the pipeline to receive OPIC insurance coverage for fiscal year 1997.

Eximbank was able to intensify its efforts to provide support for projects in Africa that extract minerals for export. During the last year, over $23 million in transactions were approved for the gold mining sector in Ghana and an additional $316 million for the hydrocarbon sector in Ghana. Eximbank also financed a major petroleum project in Angola.

Preliminary informal discussions have been held with the government of South Africa about a possible bilateral investment treaty. A number of other Sub-Saharan countries have expressed interest. In general, however, it has proven difficult to commence negotiations with African countries because their investment regimes are incompatible with the standard of protection guaranteed to U.S. investors by our BITs. The Administration will place a priority on negotiating a BIT with South Africa. The Administration will also work with other African nations that have liberalized their investment regimes sufficiently to permit conclusion of a BIT.

A U.S.-South Africa tax treaty was initialed in November 1996 and the Administration expects to submit it to the Senate in 1997. The current state of tax systems in most African countries, however, make them weak candidates for tax treaties with the United States. Moreover, compared to countries in other regions of the world, the U.S. business community has filed few complaints about African tax regimes. The interests of the business community have been taken into account in deciding how to allocate the limited U.S. Government resources available for negotiation of tax treaties.

C. *Investment Guide*

In seeking IDA/IFC technical assistance for developing investment guides for African countries and regional organizations, the United States is consulting with the African Directors of the World Bank to encourage the support of their governments.

New Initiatives

- Five OPIC funds are available to invest equity in projects in Africa. In addition to the Allied Capital Small Business Fund and OPIC's first environmental fund, the Global Environment Emerging Markets Fund I, three other OPIC funds can and do make investments in Africa. These funds are the $120 million New Africa Opportunities Fund, the recently-approved Aqua International Partners Fund, which is a $300 million fund that will focus on private water-related projects, and OPIC's second environmental fund, the Global Environment Emerging Markets Fund II (GEMF II). This GEMF II fund has already made an investment in a water purification project in South Africa.

- In September 1996, the IFC approved a new $40 million program (the "Reach Initiative") to extend its work to developing countries in which there has been little interest on the part of world capital markets and where IFC itself has not been active. The Administration strongly supports this program. The program will focus on enterprises/projects that are smaller than those typical subjects of IFC programming. The fourteen targeted African countries include, e.g., Eritrea, Ethiopia, Congo, Senegal, and Mozambique.
- OPIC will seek to expand its current client base for on-lending facilities. These facilities can provide needed access to capital for investment in Sub-Saharan Africa.
- In Angola, USAID will be providing assistance in reviewing that nation's investment codes in an effort to make it attractive for domestic and overseas investors; follow-up activities will include assisting the Angolans to establish a "one stop investment shopping center." In Uganda and Tanzania, USAID will conduct feasibility studies and help prepare business plans for the establishment of sustainable microenterprise credit and savings institutions to be operated by Pride Africa, a U.S. registered non-government organization based in Nairobi. USAID's activities to support capital market development will culminate with the launching of an interim stock trading facility in Uganda early next year. Future technical assistance in this area will involve: (a) training new regulators; and (b) establishing private pension funds to assist with the mobilization of capital for domestic investments.

USTR

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

V. Private Sector Development

Background

The past few years have witnessed a general trend in Africa away from centrally planned economies to market-oriented economies. African governments increasingly recognize that the economic growth of a country requires the expansion of its private sector. The failure of public enterprises to deliver the growth required has helped produce a change in economic and political thinking in Africa during the past decade.

Despite these positive trends, poor enabling environments, weak human resource bases, and deficient infrastructure in many Sub-Saharan countries contribute to low productivity and high costs. A recent survey by AID titled "Cost and Competitiveness in West African Manufacturing Industries," revealed that it takes 0.36 labor hours to make a shirt in Hong Kong but over two hours in an African country. High taxes and labor legislation that imposes high wage and benefit payments and layoff restrictions make hourly wages in Ghana 66 percent greater than Indonesia and render Cote d'Ivoire 80 percent more costly than Morocco or Malaysia. These high production costs undermine the competitiveness of local manufacturers, both in domestic and international markets.

Support for the development of a vibrant private sector has become an important part of the Administration's strategy to help African governments achieve rapid, sustained, and broad-based economic growth. Rising incomes and purchasing power that come with economic growth generally increase imports of U.S. products. The United States has a growing strategic and commercial stake in African private sector development.

Recent African Initiatives

In recent years, some Sub-Saharan African countries have taken steps to promote development of their private sectors by privatization of state-owned enterprises; removal of policy and regulatory impediments to growth; introduction of market-determined interest and exchange rates; development of capital markets; and the promotion of private sector organizations.

In Ghana, for instance, the government adopted an Export-Import Act that deregulated a range of non-traditional exports and abolished foreign exchange controls. Non-traditional exports for 1995 were $185 million, a 36 percent increase from the previous year. In Mali, the government's commitment to economic liberalization helped increase private investment by 20 percent in 1995.

SADC has taken a number of important steps to promote private sector participation in the region. In August 1995, the Southern African Power Pool was established to facilitate cross- border trade by the regions' power utilities. The SADC Council of Ministers approved the establishment of the Regional Tourism Organization of Southern Africa aimed at fostering private sector participation in the tourism industry. At the SADC summit at Maseru, Lesotho in August 1996, four protocols were signed to promote the freer movement of goods and services in order to help attract investments to the region.

Current U.S. Initiatives

. *Human resources*

Education and training are essential to the establishment of a viable Sub-Saharan private sector. The first six of 50 South African participants in the Mandela Economic Scholars Program, funded by USAID, received training at the American Economic Association Institute in Boulder, Colorado before starting their university course work in September.

Of the 228 Fulbright grants for Africans to study in the United States, 47 were in economic, business, and trade fields. In spite of a reduced budget last year, USIA also funded 43 African Humphrey Fellows, seven in business-related fields. Through other USIA grants, American University conducted two training programs for Nigerian business leaders, and Indiana University organized training/internships in business management for South Africans. The New School for Social Research continued for the third year to develop programs in management training at two universities in South Africa. In June, following a series of meetings, the U.S.-South African Working Group recommended the establishment of a jointly funded Fulbright Commission, a first for Africa.

In January 1996, Kenya, Zambia, and Guinea became participants in the New Partnerships Initiative, a USAID effort to stimulate lasting economic, social and political development by strengthening civil society. The start-up phase will include development of small business partnerships and democratic local governance, and will foster synergistic relationships between these groups.

During 1996, USIA sent representatives to seven African countries to promote privatization, business management, and trade. In Uganda, a Harvard-based economist addressed how privatization increases international trade and contributes to development. An economist from the U.S. Bureau of Mines spoke in Zaire, Zimbabwe, and the Congo on how to encourage investment and develop trade. A professor of economics and a representative from Price Waterhouse led a privatization workshop for businessmen from five African countries. USIA also organized Worldnet television programs on trade, privatization, and economic development themes, in which more than 25 countries participated. Several of USIA's International Visitor and Private Sector programs focused on trade-related topics. Budget cuts severely reduced its publication programs, particularly French texts, but USIA was able to distribute some economic/business texts and pamphlets at trade fairs and through embassies.

The Peace Corps' Africa Region is making the transition to the next phase of its assistance to the private sector. With the Office of Training and Program Support, it supports business linkage programs in several West African nations, including a business development project review in Togo and a workshop and feasibility study in Ivory Coast. As part of the latter, volunteers assist village committees to organize non-government organizations, manage pharmacy cooperatives, professionalize waste collection and recycling businesses, and undertake income-generation activities in the areas of water and sanitation, health education and urban environmental management. A Peace Corps-organized exposition in Benin provided non-government organizations and cooperative businesses an opportunity to share experiences and initiate mutually profitable business relationships.

In June, representatives of the South African Labour Ministry visited the United States to study U.S. Department of Labor (DOL) programs. Following the visit, the Ministry requested technical assistance in training work place safety and health inspectors, and helping the Labour Ministry to improve its statistical and labor market capability. The South African Ministry has also requested assistance from DOL in learning about affirmative action and anti-discrimination policies in the United States. It is expected that these programs will begin in 1997.

B. *Food and agriculture*

The agricultural sector provides attractive opportunities for privatization. Under the auspices of the Agriculture Committee of the U.S.-South Africa Binational Commission, over 20 bilateral agricultural projects are underway in the areas of market access, technology development, institutional and human resources development, and sustainability issues, including soil conservation and rural development.

The U.S. Department of Agriculture (USDA) is encouraging African beneficiaries of P.L. 480 to promote free and open markets. In fiscal year 1997, a $5.0 million P.L. 480 Title I program is planned with Cote d'Ivoire. An agreement with Angola, valued at $10 million, will support rehabilitation of agriculture production infrastructure and support of a rural populace engaged in agriculture. A $5 million program with the Congo will support a wide variety of activities including protecting and supporting women in development.

USDA's Emerging Markets program, which provides technical assistance to support U.S. agricultural exports to target countries, has fostered numerous activities to enhance the private agricultural sector in South Africa. An agribusiness advisor was placed in Cape Town in March 1996 for two years to assist U.S. and South African agribusinesses to develop trade and investment relationships. In fiscal year 1996, a second Cochran Fellowship Training Program was funded that will provide short-term individualized training in agribusiness for 25 South Africans. A Marketing and Regulatory Forum in September 1996 provided an overview of African nations' responsibilities under the WTO, established exchanges of information on regulatory and legislative processes used by countries to protect their food supplies, and encouraged ongoing technical discussions on issues of importance. Under the Emerging Markets Program, mandatory economic assessments have been implemented in Namibia and Ghana.

Under the Commodity Credit Corporation's Export Credit Guarantee Program (GSM-102), USDA authorized $50 million in credit guarantees for fiscal year 1996 to a group of 19 countries in West Africa and to a group of 19 countries in Southern Africa for sale of agricultural commodities. In February 1996, USDA authorized $50 million in credit guarantees for sales of U.S. agricultural commodities to South Africa under the GSM-103 program. GSM-102 programs for FY 1997 have been announced to the East Africa region totaling $35.0 million, $50.0 million for the Southern Africa region, and $50.0 million for the West Africa region. In addition, a $50.0 million GSM-103 program has been announced for South Africa.

C. *Financial markets*

Development of effective financial markets is necessary for a healthy private sector. Subject to the availability of funds, USAID is expanding market development programs in African countries, e.g., through its $100 million Southern Africa Enterprise Development Fund and smaller national funds in South Africa and Zimbabwe. USAID provides technical assistance to securities market development in Cote d'Ivoire, Uganda, and Swaziland; banking reform and privatization in Tanzania, Senegal, and Swaziland; and venture capital operations in Ghana, Tanzania, Uganda, Senegal, and Malawi. Programs to strengthen credit unions are active in Mali, Togo, Cameroon, and Malawi. USAID has also provided technical assistance to central banks in

Southern and Eastern Africa.

Micro-enterprise lending is a particularly strong component of USAID's financial sector activities in countries such as Kenya, South Africa, Guinea, Mali, Zimbabwe, Senegal and Uganda. In Zimbabwe, in 1995, USAID helped establish a loan-guarantee program with Barclays and Stanbic Bank. Four months into the program, 40 loans with a total value of $200,000 were extended to small enterprises. In South Africa, between 1994 and 1996, the Small Enterprise Foundation and the Get Ahead Foundation made an estimated 50,430 loans to small and micro-enterprises. In Uganda in 1995, 10,000 rural businesses received credit through Coop Bank. The repayment rate exceeded 95 percent. In countries like Uganda, credit to expand non-traditional exports has helped small firms penetrate regional and international markets.

D. *Multilateral Initiatives*

The Administration also supports multilateral efforts such as the World Bank-led Special Program of Assistance for Africa, which coordinates donor support for policy reforms that benefit the region's private sector.

Some specific private sector trade and promotion activities in Africa by the World Bank in 1996 were designed to support private investment generally and are worthy of note in this report:

- The Bank sponsored a conference in Ghana on reviving private investment in Africa. It also participated in several other sub-regional conferences.
- At the request of its African members, the Bank will chair a multinational "Consultative Group on Capacity Building in Africa." Efforts will be made to attract support also from other aid donors as well as from the private sector and non-government organizations.

In fiscal year 1996, the IFC -- the World Bank's private sector lending arm -- approved $190 million in financing for 71 projects in Sub-Saharan Africa in 20 countries, plus one with a regional scope. Examples included a successful two-year advisory role in the privatization of Kenya's national airline and rehabilitation and privatization of the cement and cashew industries in Mozambique. In addition, the IFC's Africa Enterprise Fund, established in 1988, provided a total of $28 million in financing for 42 investments in Africa. The IFC, with the participation of the Canadian aid agency, also initiated a three-year pilot project to provide technical assistance to businesses in Ghana primarily in production, marketing, and management information systems. If successful, the program will be extended throughout Africa.

During the past year, the Foreign Investment Advisory Service (FIAS), jointly operated by IDA and the IFC, continued to provide technical assistance in rewriting investment codes, restructuring investment agencies, and modifying tax incentives, foreign exchange regimes, and other aspects of the investment environment in member countries. African countries have had the largest number of FIAS advisory programs -- 28. They cover such areas as investment promotion in Ghana, identification of administrative and legal barriers to doing business in Namibia and Mozambique, analysis of Senegal's customs procedures and free trade zone program, and comprehensive reviews of the investment climates in Guinea and Mozambique. FIAS in 1996 also organized a regional meeting for eastern and southern African countries to discuss policy issues affecting foreign investment in infrastructure.

The Multilateral Investment Guarantee Agency (MIGA), another arm of the World Bank, provides political risk insurance to private sector investors in developing countries. MIGA has 40 African members and worked in 1996 to broaden its African portfolio. In fiscal year 1996 it covered its first project in Mali and a regional telecommunications sector operation in East Africa and extended guarantees in Uganda, Tanzania, and South Africa. The U.S. Government is working with MIGA to ensure that it has adequate resources to continue to build its portfolio in Africa.

New Initiatives

- Treasury will urge the African Development Bank/Fund to expand its lending to, and collaboration with, the African private sector, specifically by instituting co-financing of infrastructure projects and beginning a program of lending to micro-enterprises. The President of AfDF has said that his objective is to increase lending to the private sector to 25 percent of its total lending (from negligible levels prior to 1996).
- Eximbank will identify markets in which it currently is not open for routine transactions, but which have improving economic conditions and a positive environment for private sector development, in an effort to expand U.S. exports to the private sector, including newly privatized firms, through creative financing.
- USIA will support, through its private sector program, U.S. internships for African entrepreneurs arranged by the Corporate Council on Africa.
- The Administration will work through established government/private sector cooperative bodies to explore methods of maximizing the utility of Embassy unclassified reporting and making it more readily available to American businesses.
- Through its Agricultural Research Service, USDA is collaborating directly with South African agricultural research institutions as a model system for effecting a transformation to viable farming there and will seek to apply the results in other southern African countries. The research emphasizes the use of indigenous species of plants to produce higher yields, environmentally safe treatments to increase shelf life of fruit exports, increasing opportunities for rural craft industries producing meat and meat by-products, and the use of ecologically sound sustainable agricultural practices and integrated pest management to develop biopesticides and reduce crop loss.
- The U.S. Department of Labor will continue to support the Administration's goal of improving essential government institutions by providing technical assistance to interested African countries contingent upon USAID funding. Specifically, the Department of Labor will work to help improve the ability of Labor Ministries to enhance labor market information capabilities, strengthen labor standards and training, and enforce laws.
- USAID will undertake in 1997 a number of new initiatives to promote the development of the private sector in Sub-Saharan Africa. For example, in South Africa, USAID's Equity Access Systems will sponsor a $7.5 million technical assistance program to improve access to equity and long term debt by African entrepreneurs; assistance will be provided to small and medium enterprises to bring them to the "bankable" stage by making them attractive for venture capital investment and/or loan financing. Also, USAID has developed new analytic tools to assist Sub-Saharan countries to assess and improve the competitiveness of their private sectors. Use of such tools will begin in Uganda and Tanzania to help such countries identify and promote new investment opportunities.
- The Administration will encourage the World Bank Group to increase outreach efforts to ensure that African entrepreneurs, including consultants, are better able to bid for World Bank contracts.

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

VI. Infrastructure Enhancement

Background

Governments in Sub-Saharan Africa continue to dominate the provision of infrastructure in telecommunications, power, transport and other sectors. All too often the result of this dominance has been under-investment, poor maintenance of finished projects and lack of responsiveness to business and household end-users. For instance, the continent's average telephone density of about 0.4 lines per 100 inhabitants is the lowest in the world. An IFC study comparing the infrastructure of seven Sub-Saharan LDCs with ten non-African LDCs, found that the African countries lagged (per 1,000 persons) in the provision of telephones (6 vs. 54), roads (0.6 km vs. 1.0 km), and electricity (annual consumption of 80 KW vs. 300 KW). Economists recognize that underdevelopment of infrastructure has been costly to Africa. Well-planned and managed infrastructure is critical for development and has a large multiplier effect on economic growth.

In part because of technological advances, the most promising short- and medium-term prospects for private-sector involvement in Africa are in telecommunications. Satellite and microwave systems are replacing long distance cable networks, and cellular systems are emerging as an alternative to local distribution networks. These changes erode network-based monopolies in telecommunications and make competition possible. U.S. companies are leading suppliers of these new technologies. For example, U.S. firms have already installed cellular telephone networks in Benin, Cote d'Ivoire, Guinea, Madagascar, and Uganda.

Power generation and distribution projects also provide good prospects for private sector involvement. Presently, these projects are scarce in Africa. Two important obstacles to the development of private-sector projects are government controls on rates and poor country credit-worthiness, which prevent access to capital markets for financing of wholly non-recourse projects. Nevertheless, there are some prospects for IFI and private sector financing in this sector. In August 1994, for example, Cote d'Ivoire signed a 19-year concession to purchase power from the first private power project in Sub-Saharan Africa, financed by the IFC and two French public entities.

Moreover, as with telecommunications, technological advances and improvements in regulatory frameworks are making power generation more attractive to domestic and foreign investors. Combined-cycle gas turbine generators, for example, operate efficiently at lower output levels, allowing more scope for entry by new competitors in power generation. Regulators have also learned how to unbundle the generation of electricity from its distribution, allowing the break-up of old, vertically-integrated parastatals.

African countries will need to attract large amounts of foreign credit in order to import the capital equipment necessary to build the stock of infrastructure conducive to rapid economic growth. Although U.S. Eximbank and Export Credit Agencies (ECAs) of other countries, along with the MDBs, have traditionally been the major sources of support for infrastructure projects in Africa, their resources will not be enough.

Innovative financing techniques will be needed to support an accelerated transition from public to private-sector risk bearing in infrastructure projects in Africa. Project -- or limited recourse -- finance of infrastructure projects is an option that has become increasingly popular in Asia. Its use in Africa has been limited, however, because of a perception that risks remain unacceptably high. This market reaction underlines why African nations should undertake more dramatic structural, institutional and policy reforms if the continent's economies are to compete successfully for a larger slice of global investment capital and develop their own capital markets to tap domestic savings. As emphasized in other sections of this report, sound macroeconomic policies are critical to attract and generate the capital necessary to boost investment in Africa's infrastructure base. At the same time, as natural resources are developed in Africa, it is also important -- so that such development is "sustainable" -- to ensure the parallel development of an environmental infrastructure. This includes the development of adequate environmental legal and regulatory regimes and their enforcement.

Recent African Initiatives

According to the World Bank, there is an incipient but strong move in Africa away from government domination of infrastructure delivery to private provision under increasingly competitive conditions, with government acting as regulator in the public's interest. Broadly, this shift reflects a reassessment of the state's role in economic activity in light of the poor performance of planned economies. It also reflects reforms in some developed economies, where increased competition in telecommunications, power generation, and land and air transport have proven that alternative approaches can be better for the economy as a whole.

Some African governments have already experimented with private-sector partnerships in providing infrastructure services. Options include public ownership with operations contracted to the private sector, and private ownership and operation, often with regulation. Examples of the former include Cote d' Ivoire and Guinea, which have successfully granted water supply concessions to private firms, and Kenya, which has done the same for road maintenance.

Examples of the latter -- private ownership and operation of infrastructure -- are also becoming more numerous in Africa as privatization of parastatal enterprises becomes more common. This option, in which regulatory constraints are embodied in contracts with the private infrastructure provider, is an attractive alternative in African countries, where independent regulatory bodies are often weak. Tanzania, for example, began a process of privatization in 1994 that may soon leave private enterprise with a controlling interest in its telecommunications sector. Kenya plans to sell one-third of the shares in its telecommunications parastatal by 1999 and hopes eventually to cooperate in establishing an integrated, regional telecommunications market free of state control. Guinea has sold a 60 percent share of its telecommunications parastatal, and Ghana 30percent of its, to a Malaysian firm.

Private ownership and/or operation is attractive because it introduces powerful market incentives to maintain infrastructure. Inadequate maintenance has been a widespread and very costly failure of public-sector infrastructure providers in Africa. According to World Bank estimates, almost $13 billion worth of roads in Africa -- one-third of those built in the past 20 years -- have eroded due to lack of maintenance. Timely road maintenance expenditures of $12 billion would have saved road reconstruction costs of $45 billion in the ten-year period ending in 1994, according to another World Bank estimate.

One theme of the First Africa Trade Report was the importance of regional integration in Africa. This is particularly salient in the case of infrastructure networks such as power grids and road networks, where the lowest cost solution to the supply of infrastructure services often includes coordination of investments and maintenance between neighboring countries.

Some efforts to coordinate infrastructure investments regionally are already occurring in Sub-Saharan Africa. For example, the Commission of East African Cooperation, founded by Kenya, Tanzania, and Uganda in March 1996, has an ambitious plan to coordinate electrical power projects. Under its plan, Uganda would supply more hydropower to energy-strapped Kenya, while Tanzania's entirely private Songo Songo gas project -- which is being partially funded by IDA -- would sell some of its power supply to Kenya. SADC member countries signed protocols in August to fund regional infrastructure projects, including transportation projects. U.S. firms may benefit from these regional efforts: Virginia-based AES Corp., for example, has signed a memorandum of understanding with Uganda to build a $450 million dollar hydroelectric dam on the Nile.

This focus on regional integration also highlights the fact that, up to now, the quality of transportation infrastructure in Africa has often been less of a problem than institutional constraints. For example, one-third of the time required to ship freight between landlocked Mali and neighboring ports in Lome (Togo) and Abidjan (Cote d'Ivoire) is due to delays in customs clearance; in some East African ports clearing an unloaded container can require up to four weeks -- a procedure that can take less than 24 hours elsewhere.

Status of Current U.S. Initiatives

Several initiatives proposed in the First Africa Trade Report are making important contributions to policy reform and financing efforts of African governments in infrastructure provision. Some of the initiatives target the relatively promising telecommunications and power generation sectors and should create opportunities for U.S. exporters at the same time that they help Sub-Saharan African economies.

Different U.S. government agencies are leading coordinated efforts to promote policy reforms in Africa and provide financing:

- In May, the Administration promoted the principles of the Global Information Infrastructure (GII) at a major conference in South Africa and formally announced the five-year Leland Initiative to improve access of 20 African countries to the Internet.
- The Africa GII Gateway project is the core element of the U.S. Agency for International Development's strategy of "Empowering Africans in the Information Age."
- The Department of State encouraged African governments to participate actively in the ongoing WTO negotiations on basic telecommunication services and followed up on this issue during an October conference attended by most Sub-Saharan African Ambassadors based in Washington.
- The Federal Communications Commission (FCC) is monitoring an International Telecommunications Union recommendation that governments and private carriers negotiate cost-based accounting rates and issued its own rule on accounting rates that dealt with special issues affecting developing countries.
- Eximbank issued $1.3 billion in letters of interest in Africa last year and has used escrow accounts to limit risk for infrastructure projects in less credit-worthy markets.
- TDA has reached agreements in the transportation sector in Africa and continues to emphasize privatization and build-operate-transfer opportunities.
- The Department of Energy is providing policy and technical advice that facilitates private investment in water and power generation.

The late Secretary of Commerce Ron Brown worked to involve U.S. firms in the development of Africa's infrastructure during his historic Commercial Development Mission to Africa. Secretary Brown engaged Africans in regionally focused workshops in key sectors such as telecommunications, power generation, transportation, financial services, agribusiness, and tourism. Each workshop discussed opportunities, obstacles, and action recommendations for the government and private sector participants. The objective was to influence the African public and private sectors, as well as U.S. firms, toward approaching Africa's infrastructure development needs on a regional rather than an individual country basis.

The Commerce Department further highlighted the importance of regional development during its Telecommunications Trade Mission to eastern and southern Africa in October 1996. Meetings were held in Nairobi and Johannesburg to provide an opportunity for regional discussion of the private sector and telecommunications needs. The meetings also allowed for presentations of U.S. firms' products and services to appropriate government and industry representatives in east, central, and southern Africa. Officials from Kenya, Uganda, Tanzania, Ethiopia, Rwanda, Zaire, and Madagascar participated in the Nairobi meeting, while South Africa, Mauritius, Zambia, Malawi, Zimbabwe, and Lesotho participate in that in Johannesburg.

The Department of Energy continues to hold discussions with nations in Africa that have promising energy markets, such as South Africa, Mozambique, Botswana, Namibia, Ghana, Congo, Equatorial Guinea, Uganda and others, to encourage and promote the concept of sustainable energy in the government's strategy for developing an energy infrastructure. The Department has provided technical support and expertise in the development of clean, efficient, renewable technologies as well as addressed the issue of project financing, which has become one of the key considerations for private investment in Africa. Energy is making a concerted effort to assess the financing problem, alert the private sector of possible funding sources and seek creative ways of obtaining venture capital for energy businesses interested in investing in Africa.

In an effort to promote sustainable energy development in Africa, the Department of Energy has strongly encouraged the application of clean, energy efficient technology, such as low smoke coal, renewable and energy efficient building design technologies. South Africa is evaluating the possible creation of an energy efficiency agency and developing an integrated energy efficient housing program. In addition, progress has been made toward strengthening the infrastructure of Africa, particularly in Southern Africa. Energy advised South Africa on how to rationalize and begin developing an energy framework that is responsive to the economic, social and health needs of the country.

New Initiatives

- The Administration will establish an interagency group on private infrastructure promotion and finance for Africa which would help focus and refine proposals for support of privatization and new private infrastructure projects.
- To encourage and promote the regionalization of telecommunications underway by OAU members, and to build on existing cooperation with the International Telecommunications Union, the Federal Communications Commission (FCC) and the Department of State will assist with institutional strengthening of regional organizations such as the Pan African Telecommunications Union, the Regional African Satellite Organization, and the African Regional Advanced Level Telecommunications Institute.
- The Energy Department will develop a framework for a sustainable U.S. energy policy vis-a-vis

Africa through an examination of the current status of African energy demand and supply, energy needs and capacity of the African continent, the role of U.S. energy technology in fostering a sustainable energy future in Africa, and innovative project financing methods.

- A number of cooperative efforts to encourage development of an environmentally sound infrastructure in Sub-Saharan Africa will be undertaken in 1997. One approach will provide funding for cooperation in adapting U.S. technology to meet South Africa's critical environmental needs. A second approach will offer training for the trainers on environmental management and enforcement in South Africa and additional training on priority environmental topics to be funded on a private sector/government cost-sharing basis. The third involves issuing small grants (up to $20,000) to assist community groups in developing environmental capacity.

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

APPENDIX A

Summary of New Initiatives

Economic Reform

- A debt-reduction initiative started after the 1995 G-7 Halifax Summit encouraged the IMF and World Bank to consider measures to assist heavily indebted poor countries (HIPCs), with the objective of reducing their debt burdens to sustainable levels. The HIPC Debt Initiative will be funded by an initial $500 million contribution from World Bank net income, an initial transfer by the IMF of Enhanced Structural Adjustment Facility reserves for individual country cases, and additional debt relief of up to 80 percent from the Paris Club. Other multilateral creditors, including the Inter-American Development Bank and the AfDB and AfDF, are in the process of determining their contributions to this program. In order to be eligible for additional relief, countries must demonstrate a sustained track record of sound economic policy implementation. The Department of the Treasury will continue to provide strong backing so the World Bank/IMF/Paris Club HIPC program can proceed rapidly.
- At the 1996 G-7 summit in Lyon, the heads of state requested that major international economic institutions (UN, IMF, World Bank, World Trade Organization) devote special attention to Africa. In response, the four institutions pledged to give top priority to economic reform and poverty reduction programs essential to economic growth in Africa. The Administration (Treasury, State, NEC, USAID) will be working with these international institutions to develop more specific proposals in time for consideration at the next G-7 Summit in Denver in July, 1997.
- In the past two and one-half years, the African Development Bank/African Development Fund (AfDB/AfDF) have gone through some of the most extensive reforms of any of the multilateral banks. While this process was underway, donor countries withheld concessional funding for the AfDF and postponed consideration of a capital increase for the AfDB. Now that these reforms are substantially complete, in fiscal year 1997 the United States will undertake two major initiatives with respect to the Bank. First, while seeking to meet its obligations to the Bank, the Administration will urge AfDB to intensify its cooperation with the IMF and World Bank on policy-based lending. Over the next year, AfDB is expected to participate with the World Bank in at least two policy-based loans. Second, the Administration will press to make the voting influence of the Bank's non-African shareholders in its decision making more commensurate with their financial contribution.
- In 1997, USAID will implement a new $2.5 million bilateral agreement with the South African Ministry of Public Enterprises to assist the ministry in the restructuring state assets and the possible privatization of public enterprises.

Trade Liberalization and Promotion

- In order to ensure higher level attention and coordination of our trade policies toward Africa with overall trade policy goals, the Deputy USTR has in the past year assumed responsibility for senior level direction of U.S. trade relations with Africa. In addition, USTR is considering creation of a new position within its current resources for an Assistant USTR, whose responsibilities will be dealing with trade policy questions related to Africa.
- The Administration is reviewing the funding possibilities for a multi-year reauthorization for the GSP program. The program must be administered in a stable and predictable manner if it is to provide an incentive to development. In 1997, additional products imported from least developed beneficiary developing countries, mainly in Africa, will be selected for GSP eligibility. These determinations are being made on an accelerated basis and will implement the authority granted to the President in the amended GSP statute that became effective October 1, 1996.
- At the WTO and World Intellectual Property Organization (WIPO), USTR will urge that African countries be provided technical assistance and training in WTO and WIPO procedures and agreements. USIA will provide support to a sub-regional conference on Intellectual Property Rights (IPR) that will be held in Benin and will consider supporting additional IPR conferences that have been scheduled for Africa.
- USTR will send a delegation to key African countries to explain the requirements of the U.S. textile and apparel import regime.
- The Commerce Department will work with the private sector to post a Home Page for African Opportunities on the Internet that will include information on trade and investment opportunities, trade programs, equity funds, and banks available for trade and project finance.
- The State and Commerce Departments will work with the private sector to organize a tour throughout the United States by U.S. Ambassadors to African countries to brief and consult with U.S. companies in order to stimulate interest in doing business in Africa.
- In order to encourage active participation by African countries in the WTO, comprehensive briefings for African Ambassadors on the WTO and other trade and development issues by the State Department and the office of the U.S. Trade Representative (USTR) will be provided during 1997.
- Commerce will initiate a commercial dialogue with the SADC countries with the following goals: a) continued progress toward market-based economic reform in Africa; b) promotion of regional development cooperation; and c) closer commercial relations with the United States. The dialogue will involve the public and private sectors of each side to strengthen public-private cooperation. The experience with SADC could serve as a model for other sub-regions in the future.
- While the Interagency Credit Risk Assessment System (ICRAS) process is classified, private sector representatives and other entities will be invited to provide information and perspectives to the Commerce Department on African economies which might be useful to ICRAS participants in determining credit ratings.
- Eximbank has named a Senior Vice President as liaison to the Eximbank Working Group of the Corporate Council on Africa and plans to continue its dialogue with that organization with a view to providing maximum support to U.S. exporters interested in African markets.
- This fiscal year, Eximbank will send a mission to Africa led by an Eximbank Director.
- Commerce and USAID will co-sponsor a Trade Protocol Forum for the visiting SADC delegation, to assist the SADC countries in implementing the trade protocol they signed in August 1996. The forum will discus issues in trade and economic integration, costs and benefits

for the SADC members, and implications for the government and private sectors of SADC and the United States.

- Commerce devoted the January 1997 issue of *Business America* to Africa, including articles on the region's commercial opportunities and information on U.S. Government programs to help firms in African markets.
- U.S. embassies in Africa will be instructed to expand commentary in their annual Country Commercial Guide to catalog market access barriers to U.S. products. Such a catalog of trade barriers would include those that are WTO incompatible, but also those in which WTO acceptable tariffs are so high as to discourage American exports (*e.g.*, extremely high tariffs on large vehicle engines.)
- Commerce and OPIC will host roundtables on commercial development in Africa to explore with appropriate private sector organizations ways to structure and support a commercial development mission to Africa by U.S. banks and other financial institutions. The objective of such roundtables and prospective mission would be to better acquaint U.S. private sector financial institutions with African commercial opportunities, with the hope they might expand their operations in the region.
- TDA will fund reverse trade missions involving high-level Africans in the health industry and solid waste industry. By doing this, American firms will learn of new market entry opportunities and the Africans will become more aware of U.S. technologies and specific firms capabilities.

Investment Liberalization

- Five OPIC funds are available to invest equity in projects in Africa. In addition to the Allied Capital Small Business Fund and OPIC's first environmental fund, the Global Environment Emerging Markets Fund I, three other OPIC funds can and do make investments in Africa. These funds are the $120 million New Africa Opportunities Fund, the recently-approved Aqua International Partners Fund, which is a $300 million fund that will focus on private water-related projects, and OPIC's second environmental fund, the Global Environment Emerging Markets Fund II (GEMF II). This GEMF II fund has already made an investment in a water purification project in South Africa.
- In September 1996, the IFC approved a new $40 million program (the "Reach Initiative") to extend its work to developing countries in which there has been little interest on the part of world capital markets and where IFC itself has not been active. The Administration strongly supports this program. The program will focus on enterprises/projects that are smaller than those typical subjects of IFC programming. The fourteen targeted African countries include, Eritrea, Ethiopia, Congo, Senegal, and Mozambique.
- OPIC will seek to expand its current client base for on-lending facilities. These facilities can provide needed access to capital for investment in Sub-Saharan Africa.
- In Angola, USAID will be providing assistance in reviewing that nation's investment codes in an effort to make it attractive for domestic and overseas investors; follow-up activities will include assisting the Angolans to establish a "one stop investment shopping center." In Uganda and Tanzania, USAID will conduct feasibility studies and help prepare business plans for the establishment of sustainable microenterprise credit and savings institutions to be operated by Pride Africa, a U.S. registered non-government organization based in Nairobi. USAID's activities to support capital market development will culminate with the launching of an interim stock trading facility in Uganda early next year. Future technical assistance in this area will involve: (a)

training new regulators; and (b) establishing private pension funds to assist with the mobilization of capital for domestic investments.

Private Sector Development

- Treasury will urge the AfDF to expand its lending to, and collaboration with, the African private sector, specifically by instituting co-financing of infrastructure projects and beginning a program of lending to micro-enterprises. The President of AfDF has said that his objective is to increase Bank lending to the private sector to 25 percent of its total lending (from negligible levels prior to 1996).
- Eximbank will identify markets in which it currently is not open for routine transactions, but which have improving economic conditions and a positive environment for private sector development, in an effort to expand U.S. exports to the private sector, including newly privatized firms, through creative financing.
- USIA will support, through its private sector program, U.S. internships for African entrepreneurs arranged by the Corporate Council on Africa.
- The Administration will work through established government/private sector cooperative bodies to explore methods of maximizing the utility of Embassy unclassified reporting and making it more readily available to American businesses.
- Through its Agricultural Research Service, USDA is collaborating directly with South African agricultural research institutions as a model system for effecting a transformation to viable farming there and will seek to apply the results in other southern African countries. The research emphasizes the use of indigenous species of plants and animals to produce higher yields, environmentally safer treatment to increase shelf life of fruit exports, and increase opportunities for rural craft industries producing meat and meat by- products.
- The U.S. Department of Labor will continue to support the Administration's goal of improving essential government institutions by providing technical assistance to interested African countries contingent upon USAID funding. Specifically, the Department of Labor will work to help improve the ability of Labor Ministries to enhance labor market information capabilities, strengthen labor standards and training, and enforce laws.
- USAID will undertake in 1997 a number of new initiatives to promote the development of the private sector in Sub-Saharan Africa. For example, in South Africa, USAID's Equity Access Systems will sponsor a $7.5 million technical assistance program to improve access to equity and long term debt by African entrepreneurs; assistance will be provided to small and medium enterprises to bring them to the "bankable" stage by making them attractive for venture capital investment and/or loan financing. Also, USAID has developed new analytic tools to assist Sub-Saharan countries to assess and improve the competitiveness of their private sectors. Use of such tools will begin in Uganda and Tanzania to help such countries identify and promote new investment opportunities.
- The Administration will encourage the World Bank Group to increase outreach efforts to ensure that African entrepreneurs, including consultants, are better able to bid for World Bank contracts.

Infrastructure Enhancement

- The Administration will establish an interagency group on private infrastructure promotion and finance for Africa which would help focus and refine proposals for support of privatization and new private infrastructure projects.

- To encourage and promote the regionalization of telecommunications underway by OAU members, and to build on existing cooperation with the International Telecommunications Union, the Federal Communications Commission (FCC) and the Department of State will assist with institutional strengthening of regional organizations such as the Pan African Telecommunications Union, the Regional African Satellite Organization, and the African Regional Advanced Level Telecommunications Institute.
- The Energy Department will develop a framework for a sustainable U.S. energy policy vis-a-vis Africa through an examination of the current status of African energy demand and supply, energy needs and capacity of the African continent, the role of U.S. energy technology in fostering a sustainable energy future in Africa, and innovative project financing methods.
- A number of cooperative efforts to encourage development of an environmentally sound infrastructure in Sub-Saharan Africa will be undertaken in 1997. One approach will provide funding for cooperation in adapting U.S. technology to meet South Africa's critical environmental needs. A second approach will offer training for the trainers on environmental management and enforcement in South Africa and additional training on priority environmental topics to be funded on a private sector/government cost-sharing basis. The third involves issuing small grants (up to $20,000) to assist community groups in developing environmental capacity.

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

List of Frequently Used Abbreviations and Acronyms

AfDB African Development Bank
AfDF African Development Fund
BDC U.S.- South African Business Development Committee
BIT Bilateral Investment Treaty
BNC U.S.-South African Binational Commission
ECAs Export credit agencies
ESAF Enhanced Structural Adjustment Facility
FDI Foreign direct investment
GATT General Agreement on Tariffs and Trade
GDP Gross domestic product
GII Global Information Infrastructure
GSP Generalized System of Preferences
HIPC Heavily indebted poor country
IDA International Development Association
IFC International Finance Corporation
IFI International Financial Institution
IGAD Intergovernmental Authority on Development
IMF International Monetary Fund
IPR Intellectual property rights
ISA Initiative for Southern Africa
LDBC Least developed beneficiary countries
LDC Less developed country
MDB Multilateral Development Bank
OECD Organization for Economic Cooperation and Development
OPIC Overseas Private Investment Corporation
SADC Southern Africa Development Community
SPA Special Program of Assistance for Africa
TDA U.S. Trade and Development Agency
TIC Trade Investment Committee
TPCC Trade Promotion Coordination Committee
TRIPS Trade-related Aspects of Intellectual Property Rights
USAID U.S. Agency for International Development
USDA U.S. Department of Agriculture
USIA U.S. Information Agency
USITC U.S. International Trade Commission
USTR United States Trade Representative
UR Uruguay Round
WTO World Trade Organization

USTR

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

Press Release

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release - February 18, 1997

TEXT OF A LETTER FROM THE PRESIDENT
TO THE CHAIRMEN AND RANKING MEMBERS
OF THE HOUSE COMMITTEES ON WAYS AND MEANS
AND INTERNATIONAL RELATIONS AND THE SENATE
COMMITTEES ON FOREIGN RELATIONS AND FINANCE

February 18, 1997

I am pleased to submit the second of five annual reports on the Administration's Comprehensive Trade and Development Policy for Africa as required by section 134 of the Uruguay Round Agreements Act. Our policy seeks to accelerate the pace of sustainable economic development for the countries of Africa.

This Second Africa Trade and Development Report reflects our conviction that economic development in Sub Saharan Africa will benefit both Africans and Americans. Stronger economies will better enable African nations to address a variety of complex problems that transcend regional boundaries. In an increasingly competitive global economy, the United States cannot afford to neglect a vast region that contains almost 10 percent of the world's population. Our efforts to help Africa develop will also create more export opportunities for U.S. goods and services and more jobs at home. These efforts to strengthen African economies will also reduce the cost in later years for large scale U.S. humanitarian aid and enhance local and regional capacity to address transnational problems that threaten regional stability.

Many African countries have made significant progress in the struggle for development in recent years. With assistance from the World Bank and the International Monetary Fund, more than 30 Sub Saharan African nations have instituted economic reform programs, and, since 1990, nearly as many have held elections.

Nevertheless, there is much more to be done. The United States and other developed nations must do our part to promote economic growth and development in the region. Additionally, African governments must recognize that the failure of many to open their markets to increased international trade has inhibited regional economic growth.

This second report summarizes the status of ongoing programs discussed in last year's African trade and development report and introduces several initiatives designed to spur investment, development, and trade over the near to medium term. These programs and initiatives seek to achieve five basic objectives set forth in the first report: trade liberalization and promotion, investment liberalization and promotion, development of the private sector, infrastructure enhancement, and economic and democratic reforms implemented by many Sub Saharan African governments in recent years.

Working with the Congress, the U.S. private sector, the countries of Africa, and our other trading partners, the Administration looks forward to developing additional initiatives to promote trade, investment, and development in Africa.

Sincerely,
WILLIAM J. CLINTON

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